B5050-10

1983 CALIFORNIA Lodging INDUSTRY

Laventhol & Horwath
Certified Public Accountants

California Lodging Industry

First Annual Report on California Hotel Operations

1983 Edition*

2	The California Lodging Industry—1983 Introduction
2	Bed and Breakfast Inns
8	Comments From Around the State
16	The California Lodging Industry Study—1983
17	The California Lodging Industry Dollar
31	Bases and Significance of Lodging Statistics
31	Explanation of Terms
33	Analyze Your Operation

*A special survey of California hotels and motels based on contributions to *U.S. Lodging Industry 1983*.

© 1984

Laventhol & Horwath
Certified Public Accountants

695 Town Center Drive
Suite 310
Costa Mesa, California 92626
(714) 556-4244

3659 Wilshire Boulevard
Los Angeles, California 90010
(213) 381-5393
Telex: 4992753 HORWINTAS LSA

2570 El Camino Real
Suite 310
Mountain View, California 94040
(415) 941-3537

1200 Third Avenue
Suite 1424
San Diego, California 92101
(619) 236-1188

50 California Street
Suite 2450
San Francisco, California 94111
(415) 989-0110
Cable: HORWINTAS SAN FRANCISCO

$35 per copy

The California Lodging Industry—1983

Introduction

Laventhol & Horwath's first annual report on California lodging operations presents financial and operating statistics for the state's lodging industry. The information contained in this study was derived from contributions to the 1983 edition of L&H's *U.S. Lodging Industry* report.

Information presented in this study is based on properties with total sales in excess of $688 million during 1982. Comparisons are made in selected exhibits with figures extracted from *U.S. Lodging Industry 1983*, based on the entire nation.

L&H compiles monthly statistics for the San Diego and San Francisco airport lodging sectors. To receive complimentary copies of these *Trend* reports, write to L&H's San Diego and San Francisco offices (addresses on contents page)

The statistics in this report should be used with caution. The figures are intended to be used as guidelines, not standards or goals. They are not an attempt by L&H to set or conform prices or operating ratios for California's lodging industry. ■

Bed and Breakfast Inns

by Leslie Beth Stevens

Bed and breakfast inns (B&Bs) are a new and rapidly growing alternative to traditional hotel and motel lodging accommodations. Originating in Great Britain, B&Bs recently have become very popular in the United States. California has done much to spread the concept. The persistent traveler can find a B&B in just about any area of the state—from the northern to the southern coast, with a high concentration in the Napa and Sonoma Wine Country. Central California is the only area not participating in this growth industry.

Tourism is a major component of the California economy. Therefore, any new trends in the lodging industry should be monitored for potential impact on the traditional hospitality industry. The following qualitative analysis is based on the results of a recent survey of B&Bs throughout California, conducted to analyze their current market situation.

Definition

What is a true bed and breakfast inn? While no formal definition exists, the Association of Bed and Breakfast Innkeepers of Northern California defines a B&B as having the following characteristics:

- A historically or architecturally interesting structure whose primary use is as a bed and breakfast inn.
- Hospitality and personalized attention to guests are the foremost concerns.
- Individually decorated rooms.
- Provides breakfast service (more than coffee/tea/juice).
- Provides overnight lodging.
- Owner operated (possible exceptions).
- Has secured or is in the process of securing complete, regulated certification from appropri-

Leslie Beth Stevens is an assistant professor in the Department of Hotel, Restaurant and Travel Management at California State Polytechnic University, Pomona, California. She has an M.B.A. from the University of California, Berkeley, and a B.S. from the Cornell University School of Hotel Administration.

ate agencies; proper and adequate commercial insurance; fulfillment of appropriate tax requirements.

- High standards regarding the quality of housekeeping, food preparation, decoration and hospitality.
- Individualized policies, procedures, price ranges, etc. that provide a unique experience—"a stay with a difference."
- Appropriate full-time staff in attendance, with necessary emergency provisions for guests during any absence of staff.
- Common room available for social interaction during event and breakfast hours.
- Provides appropriate and reasonable security and safety (such as smoke alarms, fire extinguishers, front door locks, lighting, and parking security) in compliance with local regulations.
- Falls into one of the following size categories: small—approximately 2-3 rooms; medium—approximately 4-10 rooms; large—approximately 11 rooms or more.

Services

Each B&B has a unique offering of services. All offer complimentary breakfast, and many offer hors d'oeuvres and sherry or afternoon tea. Bicycles, hot tubs, laundry service, classical music and local sightseeing tours are available at many others. Twenty-one percent of the survey respondents serve lunch and/or dinner. In properties where prices rival the finest nearby hotels, fresh flowers daily, terrycloth robes, down-filled pillows and shoe shining services are common. At some, each room is decorated uniquely with antique furnishings, oriental rugs and original art.

Most B&Bs lack some of the amenities that guests have come to expect. For example, most rooms do not have telephones, televisions or radios. Many B&Bs are private residences that have been converted to inns and, therefore, like many European properties, do not provide a private bath for each guest room. Nor is the guest likely to find a restaurant, bar, coffee shop, barber or beauty shop at a B&B, which must be located in an area near these facilities to compensate. Conspicuously absent, however, are the noise and crowds often found in convention hotels. More and more, guests seem willing to sacrifice some amenities in exchange for the quiet, charm and hospitality provided at bed and breakfast inns.

Size

Bed and breakfast inns range in size from one to 48 rooms. Given this diverse range, the best measure of central tendency appears to be the median of seven rooms. Twenty-five percent of the properties surveyed had four or fewer rooms, and only 25 percent had 13 or more rooms. This tendency toward smallness permits B&Bs to offer personalized, attentive service. Chart 1 includes information detailing the distribution of rooms in B&Bs by location.

Average room rate

The median average nightly room rate for the survey respondents open one year or more was $55. Urban B&Bs were only slightly more expensive, with a median room rate of $60 per night.

Chart 1
Highlights—By Location

	Location											
	All Bed & Breakfast Inns			Urban			Suburban			Country		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Number of Rooms	4.0	7.0	13.0	5.0	9.0	15.0	3.5	15.0	18.0	4.0	6.0	9.5
Average Room Rate*	$48.00	$55.00	$63.00	$52.50	$60.00	$80.00	$48.00	$52.50	$63.00	$48.00	$55.00	$61.00
Occupancy Rate*	45.0%	60.0%	70.0%	60.0%	70.0%	80.0%	57.5%	68.5%	87.5%	34.0%	50.0%	61.0%
Number of Years in Operation	1.0	2.0	6.0	1.0	2.0	3.0	2.0	7.0	42.5	1.0	2.0	5.5

*Only those bed & breakfast inns in operation at least one year are included in this analysis.

This may help explain why urban B&Bs had higher occupancy rates than those located in the country, when one would expect urban properties to be significantly more expensive as a result of higher operating expenses and property values in cities. However, because urban inns are only slightly more expensive than country B&Bs, customers must perceive them as a good buy relative to other lodging accommodations in urban areas. Chart 1 includes additional detail of average room rates.

When compared with all other lodging alternatives, B&Bs are priced competitively. The average daily room rate for the 12 months ending December 31, 1982, for California hotels and motels was $57.06. Sixty-five percent of the innkeepers surveyed stated that their average room rates were comparable to local hotels and motels offering similar accommodations; 21 percent claimed that their rates were actually lower than competitors'. Many innkeepers indicated that they actually provided a better deal because of the complimentary breakfast and other complimentary services, such as Sunday champaigne brunch, and wine, sherry and hors d'oeuvres in the late afternoon.

The common assumption that B&Bs are for economy-minded travelers may be fallacious.

Industry growth trends

The bed and breakfast industry has experienced remarkable growth during the past three years. Fifty percent of the respondents had been operating for two years or less, with 25 percent in business for one year or less. Seventy-two percent indicated that they were the first to operate their properties as inns. The industry is growing at a tremendous rate as the popularity of this type of accommodation catches on.

Because many B&Bs are converted private residences, it is easy to get into the business. As in the restaurant business, people believe that because they can cook and like to be sociable they can successfully operate a bed and breakfast inn. Initial start-up costs are low for private residence conversion because in many cases the home has been paid off and only superficial modifications are necessary.

It is important to note that only 25 percent of B&Bs have been operating for six years or longer. These statistics could signal a very high attrition rate since barriers to entry are so low. Because the industry is new, it is difficult to determine how many of the new inns (open less than two years) will survive.

The flow of inns into this business is an indication about the nature of the market: More operators are entering the business to meet the increasing demand for unique accommodations. Operators perceive guest dissatisfaction with sterile, impersonal hotel chains and hope to fill this void as long as demand continues to grow. Only the future will reveal the saturation point (country inns, which have the lowest occupancy rates in this industry, may already have reached saturation).

It is interesting to note that the median number of years of operation for both urban and country B&Bs appears to be two years, the same as the overall median. Entry into these two markets is really just catching on. Suburban inns, on the other hand, have a median of seven years' operation. This is largely because of the higher than average popularity of B&Bs in traditional resort and tourism areas, such as Carmel and Monterey.

Occupancy rates

High occupancy rates are crucial to profitability at bed and breakfast inns. The median annual occupancy rate for 83 respondents was 60 percent; 25 percent of the sample reported occupancy rates of 45 percent or less, and only 25 percent reported rates of 70 percent or greater. Chart 1 includes additional detail of occupancy rates.

It is helpful to compare this 60 percent median with the average occupancy percentage for more traditional lodging facilities in California. For the 12 months ending December 31, 1982, these hotels and motels had an overall average occupancy rate of 76.5 percent. B&Bs apparently have significantly lower utilization rates than their more traditional counterparts.

Suburban B&Bs had the widest range of occupancy rates, with half reporting occupancy between 57.5 and 87.5 percent. City and suburban inns tended to have a significantly higher

utilization rate (70 percent median) than country inns (50 percent median). As the cross-tabulation in Table A illustrates, there is a correlation between occupancy and location.

Country inns, as mentioned, tended to have the lowest occupancies, suggesting a possible oversaturation of B&Bs in rural locations. Urban inns have the highest concentration of high occupancy rates, suggesting that city locations result in more healthy operations. Despite higher occupancy rates, it is difficult to determine whether urban inns are really more profitable than country inns because of the higher operating and start-up expenses.

This survey did attempt to address the profitability issue, but a high percentage of respondents failed to answer the related questions. Therefore, occupancy rates have been used as the best measure of performances. Occupancy rates actually are more valuable indicators of property performance because they do not reflect variables, such as fixed charges, that could confound relative profitability measures.

As Table B illustrates, there appears to be a correlation between occupancy rates and inn size. The smallest inns have the lowest occupancy rates. These properties generally have little or no marketing budgets and rely almost exclusively on word of mouth or free publicity. Midsize properties of six to 10 rooms have the highest occupancy rates, with 50 percent reporting rates of 70 percent or greater.

Table A

Number of Bed & Breakfast Inns*		Location		
		Urban	Suburban	Country
Occupancy	Under 50%	3	3	17
	50%-69%	8	5	15
	70% and Over	12	8	7

*Only those bed & breakfast inns in operation at least one year are included in this analysis.

Table B

Number of Bed & Breakfast Inns*		Number of Rooms		
		1-5 Rooms	6-10 Rooms	11 Rooms and Over
Occupancy	Under 50%	13	5	5
	50%-69%	11	7	10
	70% and Over	3	12	12

*Only those bed & breakfast inns in operation at least one year are included in this analysis.

Occupancy generally is expected to increase with length of time in business, since low-occupancy properties presumably go out of business. New properties generally need at least five years to establish a good reputation and a repeat-business following. Table C illustrates these relationships.

There also appears to be a relationship between nightly room rate and occupancy rate. Surprisingly, the lowest room rates often result in the lowest utilization rates. Medium-priced properties ($50 to $64.99 per night) have the highest occupancy rates, but higher-priced properties appear to do well, as Table D shows.

In summary, it appears that the wise B&B investor will prefer a six- to 10-room property located in a city. This, in conjunction with room rates of at least $50 per night, should result in a healthy occupancy.

These generalizations about occupancy rates, however, must be interpreted with caution: 26 percent of the qualified respondents did not answer the specific questions related to annual occupancy percentage. Some wrote that this information was confidential. Others indicated that they simply did not know because they had not been in business long enough to have developed a track record or simply did not keep sophisticated records.

We can, however, make generalizations about overall occupancy trends in this infant industry. Seventy-seven percent of survey respondents indicated that occupancy had increased during the past year, 11 percent that it had remained the same, and 12 percent that it had declined. Thus, despite the recession and decreasing occupancy rates in the hotel industry as a whole, B&Bs seem to be experiencing growth. The concept of the B&B is gaining rapid acceptance among travelers, and demand is keeping pace with the growth of the industry.

Table C

Number of Bed & Breakfast Inns*		Number of Years Operating		
		1½ Years and Less	Over 1½-4 Years	Over 4 Years
Occupancy	Under 50%	8	10	5
	50%-69%	6	12	10
	70% and Over	3	10	14

*Only those bed & breakfast inns in operation at least one year are included in this analysis.

Table D

Number of Bed & Breakfast Inns*		Average Room Rate		
		Under $50	$50-$64.99	$65 and Over
Occupancy	Under 50%	14	4	5
	50%-69%	7	14	5
	70% and Over	3	14	10

*Only those bed & breakfast inns in operation at least one year are included in this analysis.

Operating patterns

Ninety-six of the survey respondents are open all year round. Almost all indicated winter as the slowest season for business, except in the Lake Tahoe area. However, only 19 percent of the respondents felt that B&Bs are primarily a seasonal business.

Demand does seem to be concentrated on weekends and holidays, with 89 percent of respondents indicating that occupancy was greatest at those times. B&Bs certainly are not drawing commercial or business traffic, perhaps because the majority are located far from commercial centers. In general, they attract the pleasure traveler/tourist as their primary target market.

Future outlook

The outlook for the bed and breakfast industry is bright. Demand is growing rapidly as the nostalgia craze continues and the European tradition catches on in the United States. Rapid acceptance by Californians and also Easterners suggests that this trend probably will spread quickly throughout the U.S. Additionally, as leisure time increases, the American public will perceive B&Bs as a unique weekend get-away.

In some locations, supply appears to be outstripping demand. Median occupancy rates in country inns are low, but ease of development allows an influx of inns into this market. Zoning problems and regulations may be reversing this trend in some areas. About 25 percent of respondents indicated that zoning regulations were an obstacle to opening their inns, and 21 percent agreed that zoning regulations currently are a problem, especially when prosperous inns try to expand.

As the industry matures and attracts national attention, big business undoubtedly will want to take advantage of this new opportunity. According to *Hotel & Motel Management,* there are plans for a "chain" concept of 50-room B&Bs in California, as well as a "hometel" concept of personalized hotels. In Houston, a motel chain is trying to use the B&B concept to attract economy-minded business travelers. Each property will have between 120 and 180 rooms. Room rates will vary from location to location, but the target goal is 30 percent less than a Hilton or Holiday Inn. Rates will include a Continental breakfast.

Other major chain properties are reacting with "club floors." Certain floors will be set aside and will serve complimentary breakfast, evening hors d'oeuvres and cocktails, provide special concierge service, free daily newspapers and other services designed to personalize the guests' visit. This concept is aimed primarily at the commercial traveler.

Conclusion

Noticeable changes are taking place in the hospitality industry today. Since the motel boom following World War II, the industry has been evolving to meet the needs of an upwardly mobile and increasingly transient population. Economy motels, once viewed as a fad, satisfied the needs of price-sensitive travelers and have become a permanent lodging alternative. Today, many industry executives consider bed and breakfast inns to be a fad. Only time can determine what role this cottage industry will play in the future of the hospitality industry as a whole. If trends in Great Britain are any indication, B&Bs are here to stay.

The general state of the economy has forced many travelers to downgrade to less expensive accommodations. However, many guests do not view B&Bs as a concession in lodging amenities, but as a new vacation experience. They may choose B&Bs over less expensive hotels if prices in traditional choices become prohibitive. Finally, B&Bs appeal to the renewed interest among Americans in cultural, historical and architectural preservation.

Given the low barriers to entry, B&Bs should continue to play an increasingly important role in the hospitality industry. Hotel managers may discover that they must put increased emphasis on service and personalized attention if they want to keep this market from slipping away, perhaps forcing the hospitality industry to become more hospitable. ■

Comments From Around the State

From the East Bay area

San Francisco's East Bay area is one of the most talked about lodging sectors on the West Coast. Stretching northeast of the city to Concord, southeast to Pleasanton/San Ramon and southwest to Milpitas, it encompasses major portions of Contra Costa and Alameda Counties and includes the city of Oakland.

Hotel developers and franchise companies are showing strong interest in the area because of the significant industrial and commercial office development that has occurred and is expected to continue there. The East Bay area's attractions to commercial and industrial developers include:

- Availability of large tracts of land at low cost.
- Adoption of pro-growth policies by many area cities after the passage of Proposition 13.
- Increasing trend of major San Francisco companies moving away from downtown areas and into the areas where workers live.
- Recurring problems involving parking, labor costs and transportation costs at primary Bay area office and industrial locations.
- An available skilled labor force combined with a current lack of jobs of all types in the area.

Development of industrial and business parks began in the mid-1970s in Walnut Creek and Concord. As both areas began to take the shape of "mature cities" in terms of their solid commercial and industrial bases, hotel developers made their moves. AIRCOA, of Denver, became the first hotel company to develop a major first-class, full-service property with executive conference facilities when it opened the Concord Hilton in late 1982. Two other developers are finalizing plans for similar properties in nearby Walnut Creek.

Industrial and commercial development of the Pleasanton/San Ramon area is still in the infancy stage. As the table below shows, a number of large business parks have been proposed for or are under construction at various locations in the area.

Developers of the parks estimate that all construction will be complete within the next 25 years. Although the industrial and commercial development is still in the early stages, hotel developers are beginning to stake claims for preferred sites. When the parks are complete, demand for hotel rooms undoubtedly will reach exceptionally high levels. However, there is concern that the number of hotels proposed for development in the near future will far exceed the demand level that will be present for some time to come.

Oakland's status as a lodging center improved this year with the completion of the 485-room Hyatt Regency and the adjacent 55,000-square-foot convention center. The Oakland Convention and Visitors Bureau is projecting significant growth in convention demand in the foreseeable future based on the firm commitments already on the books.

Now that this significant portion of Oakland's redevelopment is complete, the city is attracting interest from office building and hotel developers. The lodging industry in the Oakland area, which includes the cities of Berkeley and Emeryville, has been healthy in terms of occupancy for a number of years as a result of a very sizable and strong commercial base. The completion of the convention center and its sister hotel should strengthen this lodging sector considerably by providing a second major guest market segment to draw upon.

From Los Angeles County

Although not immune from the 1980-82 recession, the Southern Californian economy's diversity prevented strong declines in demand for greater Los Angeles area lodging facilities during 1982. The area's first-class lodging properties experienced a 4 percent drop in the total number of guest nights compared with 1981. The reported area-wide occupancy for 1982 was 72.4 percent, down about five percentage points from 1981. The lodging supply increased 3 percent during the same period.

Area hotels are experiencing an increase in the number of business travelers in 1983. The strong U.S. dollar, however, is stimulating domestic travel abroad and discouraging foreigners from visiting Southern California tourist attractions. A weak Mexican economy has discouraged Mexicans from traveling to Southern California, and many Japanese visitors stayed home this summer to visit their own new Disneyland. Overall, the greater Los Angeles area should

Pleasanton/San Ramon Commercial/Industrial Development

Project	Approximate Size in Acres	Location	Estimated Square Footage
Hacienda Business Park	720	Pleasanton	12,000,000
Bishop Ranch Business Park	583	San Ramon	7,500,000
Fromm Business Park	101	Pleasanton	1,000,000
Stoneson-Daon Site	91	Pleasanton	1,130,000
Meyer Business Center	82	Pleasanton	1,250,000
Valley Business Park	69	Pleasanton	900,000
Pleasanton Park Business Center	56	Pleasanton	365,000

experience modest growth in lodging demand during 1983.

As Los Angeles gears up for its role as host to the 1984 Summer Olympic Games, area hotel operators are very optimistic that 1984 will be their best year since 1979. An estimated five million additional visitors are expected in greater Los Angeles during summer 1984. In addition, the general economic recovery certainly should have a positive effect on area-wide hotel performance from late 1983 through 1984.

The Los Angeles metropolitan area is undergoing a boom in hotel construction. By the end of 1984, the area's first-class lodging supply will increase by 6,163 rooms, a 20 percent increase. New hotel construction is occurring in many of Los Angeles' major office and retail facilities. The accompanying table details the projects scheduled for completion by the end of 1984.

Following the national decline in inflation, increases in the average room rates achieved by area hotels in 1982 slowed compared with previous years. The average daily room rate for Los Angeles area hotels during 1982 was $61.75, up 7 percent from 1981. Rate increases in 1983 should fall within the 5 to 6 percent range. Because of the expected strong demand levels, we project a significant average daily room rate increase of approximately 10 to 12 percent for Los Angeles area hotels in 1984.

Los Angeles County (New Properties)

Area	Property	Rooms	Year of Opening
Downtown	Sheraton Grande	494	1983
Los Angeles International Airport	Hilton Hotel	1,307	1983
	Holiday Inn-Crowne Plaza	612	1984
	Granada Royale Hometel	350	1984
Century City	Century Plaza (addition)	322	1984
Torrance	Holiday Inn (addition)	125	1983
	Marriott Hotel	494	1984
Long Beach	Hyatt Regency	542	1983
Universal City	Sheraton Premiere	518	1983
Westlake Village	Westlake Plaza Hotel	264	1983
La Mirada	Holiday Inn	300	1984
West Hollywood	Le Valadon	138	1984
	Le Dufy	121	1983
	Le Mondrian	240	1984
	Le Clarion	200	1984
Santa Monica	Holiday Inn Bayview (addition)	126	1984
Total		6,153	

From the Monterey Peninsula

The Monterey Peninsula, on the Northern Coast of California, is a major tourist destination because of its scenic location, good weather, charm, first-class lodging and conference facilities, and internationally-acclaimed golf courses. Located about 117 miles south of San Francisco and 345 miles north of Los Angeles, the peninsula comprises beautiful seaside communities, including Monterey, Carmel, Pacific Grove, Seaside and Pebble Beach.

Among the many attractions of this unique area are the championship golf courses, which have hosted state and national championships including the U.S. Open in 1972 and 1982. In addition, the Bing Crosby Pro-Am Tournament is played annually at the Pebble Beach Golf Links in January or early February.

A total of 4,700 guest rooms was reported at year-end 1982, with an average room rate of more than $80. Forty-one percent of these rooms were considered to be first-class (or better) in full-service hotels. On an area-wide basis, these properties typically achieve very high occupancy levels. The properties include, among others, the world-famous Lodge at Pebble Beach and the five-star Quail Lodge.

Estimated year-end area-wide occupancy levels for Northern California resorts in 1980, 1981 and 1982 were 74 percent, 79 percent and 80 percent respectively.

Projects currently under construction or proposed include the following:

- In Monterey, a 171-room addition to the Del Monte Hyatt House, scheduled to open in late 1983 or early 1984; the 287-room Plaza Pacific Hotel, due to open in 1984, and the 344-room Monterey Sheraton, scheduled to open in 1985.
- On 17-Mile Drive, the 270-room Spanish Bay Resort, scheduled to open in 1986. The developers, Pebble Beach Corporations, are planning a world-class resort, the first of such quality on the West Coast. The numerous recreational facilities will include an 18-hole golf course.

Historically, the Monterey Peninsula has been of strong interest to hotel developers because of the high demand levels and average daily room rates. However, during recent years, an increasing number of Monterey residents have expressed concern that their city has become too highly commercialized and that this trend would be compounded by continued hotel development. In the 1983 mayoral election, the winning candidate campaigned on a "no growth for hotels" platform. Thus, it is expected that no more hotels will be approved for development in Monterey for some time to come. A possible outcome of this may be that as the hotel rooms currently under construction or approved for construction are fully absorbed, room rates will escalate at unusu-

ally high levels. It is also reasonable to assume that some nearby cities will adopt "pro-growth" attitudes toward hotels to capture any turned away demand and, thus, increase their financial resources.

From Orange County

The Orange County lodging industry continued to perform impressively during 1982 and the first half of 1983. First-class lodging facilities reported a county-wide occupancy of more than 76 percent in 1982, with a slight increase for the first six months of 1983 compared with the same period in the previous year.

The national recession has had little effect on the Orange County lodging industry, with the local economy continuing to support the area lodging facilities. The strength of the industry continues to stimulate interest in new hotel development, particularly in Anaheim and the Newport Beach/Irvine area, Orange County's two major lodging sectors. Anaheim, in addition to having the popular Disneyland and Knott's Berry Farm tourist attractions, has become a major convention city. The convention center attracted approximately 625,000 delegates in 1982, and delegate counts are expected to increase sharply with the addition of 121,000 square feet of exhibition and meeting space in fall 1983.

During the last 10 years, the Newport Beach/Irvine area has evolved into a major center of first-class office space, with a high concentration of major corporate headquarters (as well as regional and national offices) of Fortune 500 companies. Since 1977, this area has absorbed nearly 5.6 million square feet of new office space. This increase in office supply, coupled with the proximity of both the Pacific Ocean and the John Wayne Airport, makes the area desirable for hotel development.

Hotels opening or under construction in Orange County in 1983 (heavily concentrated in the Anaheim and Newport Beach/Irvine areas) include:

- The 501-room Marriott near John Wayne Airport in Irvine.
- The 1,600-room Hilton adjacent to the Anaheim Convention Center.
- The 500-room Emerald Hotel in Anaheim.
- The 300-room expansion of the Anaheim Marriott.
- The 400-room Ritz Carlton resort in Laguna Niguel.
- The 500-room Meridien Hotel near John Wayne Airport in Newport Beach.
- The 280-room Granada Royale Hometel in Santa Ana.
- The 460-room Doubletree Inn in the City of Orange, near Anaheim.

Two other hotel projects likely to begin in 1983 or 1984 include a 234-room expansion of the Newport Beach Marriott and a 500-room Hilton in Irvine.

Continued growth in lodging demand is expected in 1984, although hotel occupancies may soften because of the number of new competitors in the area.

From Palm Springs

The Palm Springs lodging market area comprises the desert cities of Palm Springs, Cathedral City, Rancho Mirage, Palm Desert, Indian Wells and La Quinta. These cities are connected by Highway 111, which traverses the Coachella Valley basin.

The lodging industry's strong growth in this area, which has evolved into one of the most popular destination resorts in the western United States, is attributable to a combination of good weather, natural mineral springs, and the proximity to Los Angeles and other Southern California metropolitan areas.

The area's more than 200 lodging establishments, with a total in excess of 7,500 guest units, range from very small family-run motels to full-service deluxe resort hotels. In the last 10 to 15 years, lodging development has been concentrated on first-class, resort-oriented hotels and motor hotels. The area's eight first-class resort hotels offer full-service amenities, such as restaurants and banquet and meeting facilities. Some feature extensive recreational facilities, such as championship golf courses and tennis courts. In 1982, these hotels achieved an average annual occupancy of 57 percent compared with the three years prior to 1982, during which average occupancy was in the mid-60 percent range despite increases in room supply. The 1982 trend toward decreased occupancy is not expected to continue as the country recovers from the recent recession.

The demand for lodging in the Palm Springs area varies seasonally. The peak demand period usually occurs between mid-December and mid-April, with average occupancy in the mid-70 percent range. Lodging demand is lowest during the summer months (average occupancy in the mid-30 percent range), when the weather is extremely hot. Demand during the intermediate season is moderate to heavy.

The annual average daily rate (ADR) for Palm Springs area resort-oriented hotels in 1982 was approximately $88, a $4 increase over 1981's average rate. The rate of increase slowed in 1982 compared with previous years, again reflecting the effects of the recession. Market area ADRs are projected to increase approximately 5 percent in 1983. The ADR follows a seasonal pattern, with the approximate rate for the peak, intermediate and summer seasons being $106.50, $80 and $41 respectively.

The most notable growth has occurred in the group meeting market, which accounts for 69 percent of demand compared with 31 percent for tourists and other visitors. Statistics compiled by the Palm Springs Convention and Visitors Bureau indicate that group meeting market demand increased at an annual average rate of 4.4 percent between 1970 and 1980 for that city alone.

The Palm Springs lodging industry is experiencing a flurry of hotel development activity as a result of the improving economy and falling interest rates on construction loans. No fewer than 15 hotel projects were announced at any one time during 1982. However, because of these projects' varying

development strengths and time schedules, it is unlikely that all of them will be developed. The following projects are either completed, under construction or planned:

- A 108-room addition to Marriott's Rancho Las Palmas resort hotel, completed in January 1983.
- A 162-unit condominium resort hotel, to be operated by Royce Resorts, under construction and scheduled to open in December 1983.
- A 225-room Marquis hotel, expected to open in late 1984. Ground breaking is scheduled by year-end 1983.
- A proposed 500-room, full-service Hyatt Regency resort hotel, scheduled to open in 1985.
- A proposed 800-room, full-service Marriott resort hotel, scheduled to open in 1985.
- A proposed 250-suite Granada Royale Hometel, scheduled to open in 1985.

The development of these new resort-oriented hotels should generate more national recognition of the Palm Springs area. The city of Palm Springs is spearheading the development of a convention center, but several factors currently appear to be hindering development.

Because of continued strong growth of Southern California's economy, area hotel operators are optimistic that lodging demand will return to previous levels and that the rate of growth in demand will continue at comparable historical levels.

From San Bernardino and Riverside Counties (The Inland Empire)

San Bernardino and Riverside Counties, frequently referred to as the Inland Empire, encompass 27,499 square miles (the largest two-county area in California). Population and economic forecasts for these counties are among the strongest in the state. Much of this growth is expected to be concentrated in the western end of the two-county area, particularly in the cities of Ontario, Riverside and San Bernardino, for the following reasons:

- Close proximity to Los Angeles and Orange Counties, both top employment and population centers.
- Lower land and housing costs and an abundance of developable land compared with Los Angeles and Orange Counties.
- Central location in Southern California.
- Large labor pool.
- Developed infrastructure.

In 1982, the lodging industry in the Inland Empire fell victim to the national economic recession. Occupancies for 1982 were at their lowest levels in recent history. Several additions to the lodging supply in 1981 and 1982 compounded the effects of the recession on occupancy levels. New lodging facilities in the Inland Empire in 1982 included:

- A 231-room Red Lion in Ontario.
- A 137-room addition to the San Bernardino Hilton Inn.
- An 83-room Super 8 Hotel in San Bernardino.

Hotel operators reported that occupancies rebounded from 1982 levels during the first six months of 1983. The local economies are showing strength, enhanced by several new developments. The largest and most impressive of these developments is the 688-acre Ontario International Center mixed-use project being developed by Chevron Land and Development Company.

Ontario is expected to be the beneficiary of much of the economic growth in the Inland Empire. Area-wide occupancy for Ontario was up approximately five percentage points during the first half of 1983, while area average rates increased approximately 4 percent above the 1982 level. Hotel development in Ontario is occurring near Ontario International Airport and Ontario International Center. Construction of a 319-room Hilton Hotel and a 110-room Quality Inn is expected to begin in 1983. Furthermore, the Red Lion is planning a 150-room addition, but the schedule for this development is uncertain.

In San Bernardino, hotel operators report that occupancy levels in the first six months of 1983 exceeded those of 1982. However, average rates in 1983 have not significantly increased over 1982 levels. Hotel development activity occurring in downtown San Bernardino and northeast of the junction between Interstates 10 and 215 includes:

- A 153-room La Quinta Motor Inn, which opened in May 1983.
- A 243-room Ramada Inn, adjacent to the convention center in downtown San Bernardino. Construction is scheduled to begin in late 1983 with the facility expected to open in December 1984.

During the first half of 1983, the lodging industry in Riverside was recovering from the 1982 economic slowdown. Hotel operators reported area-wide occupancy to be up approximately six to eight percentage points in 1983 compared with 1982 levels. Average rates during the first six months of 1983 were up approximately five to eight percent over 1982 levels. Strong economy lodging development has been occurring in the La Sierra area of Riverside. The following properties have opened during 1983 near State Highway 91 and La Sierra:

- A 38-room Comfort Inn.
- A 148-room Sixpence Inn.
- A 47-room Early California Hotel.
- A 50-room Best Western.
- A 52-room TraveLodge.

Other additions to the Riverside lodging supply include a 100-room addition to the 127-room Holiday Inn-Riverside, currently under construction, and a 256-room Sheraton at Raincross Square in downtown Riverside, under construction and scheduled to open in spring 1985.

Another emerging sector of the Inland Empire is the Rancho California/Temecula Valley area of southwestern Riverside County. Rancho California is a 97,000-acre planned commercial, light industrial and residential community being developed by Kaiser Aluminum and Chemical Corporation. Hotel development is expected to occur in this community during the next five years.

From San Diego

San Diego is moving forward rapidly. In 1982, it was the eighth largest city in the United States. Future growth forecasts provide a positive outlook not only for the city, but for the entire county as well.

San Diego County has long been highly successful in attracting tourists and group meetings to the area. Tourism is the second largest industry, and the county boasts nearly 25,000 guest rooms to service this sector of the economy. The county offers a pleasant year-round climate, several successful tourist attractions and reasonable lodging expenses relative to other major California metropolitan areas.

The public and private sectors are very active in their pursuit of additional tourists and conventions. In August 1983, the City Council endorsed a joint proposal from the Port of San Diego and Torrey Enterprises to develop a major convention center next to San Diego Bay. This November, voters will have an opportunity to accept or reject this proposal. If constructed, the center (as proposed) would offer 250,000 square feet of exhibit space and 100,000 square feet of banquet and meeting space.

In addition to the convention center, there have been other efforts to enhance the city's image. A light rail transit system was started in 1981 that includes service to outlying communities and the Mexican border. Redevelopment of the downtown area includes:

- The Gas Lamp Quarter—A Victorian Era commercial area that is undergoing renovation.
- Horton Plaza—A major retail, entertainment and hotel complex currently under construction.
- The U.S. Grant—A vintage hotel restoration project that is underway.
- Seaport Village—A specialty retail and restaurant project that has been completed.
- Numerous office and residential development projects that have been completed and several more that are planned.

The *San Diego Trend of Business in the Lodging Industry,* published monthly by L&H, reveals operating characteristics of San Diego County lodging facilities, as shown above.

Year	County-Wide Occupancy	County-Wide Average Daily Room Rate	Percent Change In Average Daily Room Rate
1981	73.4%	$50.06	N/A
1982	71.7	55.42	10.8%
1983*	76.1	57.74	4.1

*Year-to-date June 1983 76.1% compared with 73.7% 1982 year-to-date.
Year-to-date June 1983 $57.74 compared with $54.11 1982 year-to-date.

The hotel, motor hotel and motel operators reporting these data are optimistic about 1983. There are indications that the impact of the recession is subsiding. While the group meeting demand levels achieved in 1978 and 1979 have not yet returned, the tourist segment heavily booked lodging facilities for the summer months. Significant increases in area-wide occupancy and average daily room rates were anticipated for this peak demand period.

The short-term outlook is for continued increases in area-wide occupancy and accelerated increases in average daily room rates. However, because of increases in the room supply, there is concern about operating levels in the mid-1980s. The table below lists some of the hotel projects proposed for the area.

In addition to those hotels, many other projects are under consideration in Del Mar, La Costa, La Jolla, Mission Valley, Oceanside, downtown, Chula Vista, Coronado Island, San Ysidro, Carlsbad, Encinitas and Borrego Springs.

The San Diego area's pleasant environmental characteristics, coupled with the growth in tourism and clean industry, provide a positive economic outlook. The large number of proposed lodging facilities and the presence of a major convention center will enable San Diego to compete more effectively with other major metropolitan areas in pursuit of the tourism dollar.

San Diego County (Proposed Projects)

Project	Location	Proposed Number of Rooms
Inter-Continental Hotel*	Downtown	681
Quality Royal*	Mission Valley	256
Sheraton	Torrey Pines	400
Marriott	La Jolla	350
Marriott	Downtown	700
Amfac	Downtown	450
Ramada	Mission Bay	650
Best Western	Downtown	214
Atlas	Downtown	295
Holiday Inn	Kearny Mesa	300

*Under construction.

From San Francisco

"Everybody's favorite city," San Francisco, is preparing itself for 1984 in hopes of achieving a full recovery similar to the late 1970s and 1980, when hotel occupancy percentages reached extremely high levels. Much activity is expected in 1984 with the scheduled Democratic National Convention, the Summer Olympic Games in Los Angeles, baseball's All-Star Game and the return of the cable cars, one of the city's most famous attractions. Most important, area hotel operators, restaurateurs and retailers are counting on the disappearance of the lingering fears about the recession (the primary reason for limited growth in tourism). Although these events are exciting to anticipate, we must remember the following:

- The scheduled events will oc-

cur during peak demand periods. Therefore, any significant growth in hotel occupancy probably will occur in outlying areas of the city (e.g., portions of the East Bay or the San Francisco Airport area).

- Because San Francisco is considered one of the world's most expensive cities, it conceivably could be one of the last metropolitan areas to recover fully from the recession's impact.
- Between late 1983 and year-end 1984, area room supply will increase by approximately 2,300 new hotel rooms. Thus, although demand levels probably will increase, area-wide occupancy should decrease because of the additional rooms.
- The vacancy rate in major office buildings has increased since late 1982 as a result of new office construction, the recession-induced leasing slowdowns by major users and the relocation of several large tenants to suburban areas. This could result in decreased demand for commercial-oriented lodging accommodations.

Despite these factors, San Francisco still has one of the most viable hotel industries in the country, with a guest market fairly evenly distributed among tourists, conventioneers and business travelers. The area-wide occupancy level in 1982 was 71 percent, compared with the national average of 65 percent. The city's viability depends heavily on its reputation as one of the most exciting cities in the world, and the San Francisco lodging industry looks forward to 1984 with optimism.

From the San Francisco Airport area

Hotel operators located near an airport are faced with a complex situation and a unique challenge. Not only are they affected by changing consumer patterns resulting from economic conditions, but they also must contend with strikes, fare wars and deregulation, which affect business derived from airport volume. On their side, however, is the fact that in today's market, airports can draw commercial development that, in turn, yields more demand.

Laventhol & Horwath has been following the trends of the San Francisco International Airport area lodging industry for more than two years. We have seen this segment of the lodging industry battle its way through the difficult economic conditions of the recession in 1981 and early 1982, which brought a decline in commercial and tourist travel. Occupancy levels dropped 0.8 percent from those of 1981, with a 1982 year-end occupancy of 74.6 percent. However, compared with the overall national average of 66 percent, the airport segment didn't fare so badly. The lodging industry for the state of California as a whole achieved an average occupancy level of 77 percent for the same period.

Double occupancy at airport area properties decreased 6.6 percent in 1982 compared with 1981, while room sales per occupied room increased 9 percent. Food and beverage sales per occupied room were $32.66, compared with $31.67 for the same period in 1981. Surprisingly, food cost as a percentage of food sales was 35 percent, down from 36 percent in the prior year, while beverage cost as a percentage of beverage sales increased from 19 to 20 percent. Payroll costs increased 12.7 percent in the rooms category and 12.1 percent in the food and beverage category.

For the six months ended June 1983, performance levels (i.e., occupancy and double occupancy percentages) were similar to those achieved for the same period last year. Area-wide occupancy was 74.3 percent, compared with 74.9 percent in the first half of 1982, and double occupancy was 27.5 percent, down from 28.5 percent. Room sales per occupied room increased 6.1 percent to $58.78. Food and beverage sales also were up, at $32.23 compared with $30.92 for last year. The average receipt per cover was $7.65, up from $7.05, and food cost as a percentage of food sales remained at 33 percent. Rooms payroll per occupied room increased from $12.07 in June 1982 to $13.10 for June 1983. Payroll expenses as a percentage of food and beverage sales decreased slightly, from 48.7 percent to 48.4 percent.

Although area-wide occupancy does not seem to be growing, there is, in fact, real growth because of the successful absorption of the Days Inn that opened in June 1983. A more recent addition to the area room supply is the 400-room Holiday Inn-Crowne Plaza, which opened in July 1983. All reports indicate a favorable reaction to this new concept, which caters to the frequent business traveler who demands extra amenities and services.

As a group, airport hotels consistently have achieved higher occupancy rates nationwide than properties in the center city, suburban, highway and resort categories. However, the San Francisco International Airport area hotel operators will have their work cut out for them with the projected openings of the new properties listed in the accompanying table.

The 1984 Democratic National Convention to be held in San Francisco, the Olympic Games in Los Angeles and the return of the world-famous cable cars should create an upsurge in tourism. To some degree, this should help soften the effects that the additions to room supply will

San Francisco Airport (Proposed Properties)

Project	Number of Rooms	Status	Projected Opening Date
Ramada (expansion)	114	Under construction	Late 1985
Airport Plaza (expansion)	229	Under construction	October 1984
Marriott	700	Under construction	Mid-1985
Granada Royale	337	Construction scheduled to start July 1984	Mid-1986

have on airport properties (as well as downtown San Francisco properties) next year.

From the Silicon Valley

The "Silicon Valley" is a major high-technology industrial center in central Santa Clara County (northern San Jose, Santa Clara and Sunnyvale). As high-tech jobs continue to increase, so do the boundaries of the Silicon Valley, which have expanded to encompass such cities as Milpitas, Morgan Hill and Gilroy. According to a 1983 study performed by the Association of Bay Area Governments (ABAG), the number of high-tech jobs in the San Francisco Bay area will double in the next two decades, from 161,000 jobs in 1980 to approximately 323,000 in 2000. The San Jose area will lead the region in the increase in employment. Communities with the highest percentage growth in jobs by the year 2000 are Morgan Hill (380 percent), Gilroy (317 percent), Pleasanton (305 percent) and the Alamo-San Ramon area (235 percent). Companies such as IBM and Apple Computers will account for much of the projected increase in employment in these areas. The building industry will have to provide at least 582,000 new dwelling units to accommodate the anticipated household growth.

The lodging industry also will reap the benefits of these positive trends. For example, the 500-room Red Lion Executive Inn, which opened in San Jose in December 1982, has achieved very favorable results. Equally significant is the fact that major hotel operators in the area believe there was no major impact on their occupancy levels. This trend is a good indicator of ample demand in a growing area.

Laventhol & Horwath's recent analysis of the existing lodging supply in San Jose, Santa Clara and Sunnyvale indicated a 1982 year-end average area-wide occupancy of 75 percent, with an average daily room rate of $62.75. Both factors indicate a strong lodging industry. In the same analysis, we determined that demand for these properties was provided by the following major market segments:

Market Segment	Percent of Total Demand
Commercial Travelers	73%
Meetings/Groups	18
Tourists and Others	9
Total	100%

The Silicon Valley is economically strong and dynamic, and continues to stimulate considerable interest in hotel development. Current projected additions to the area room supply, either in the planning or construction stages, are shown in the table below.

These projects represent a total of 1,451 guest rooms. The proposed 500-room Doubletree will be developed in conjunction with the Santa Clara Convention Center, scheduled to be completed by 1986.

A recent development in the Silicon Valley that is causing much speculation is Marriott Corporation's announcement that it intends to sell Great America, its 196-acre (approximately) entertainment park. Speculation centers around whether the city will exercise its right to buy the park and maintain it as is, or whether an outside developer will purchase the land and convert it to office and light industrial usage. The shortage of developable land in the Silicon Valley has been a primary force behind the emergence of Pleasanton/San Ramon and Morgan Hill/Gilroy as centers of development activity. The outcome of Marriott's announcement could have far-reaching effects on a number of areas.

From Ventura and Santa Barbara Counties

Overall, hotel operating levels in Ventura and Santa Barbara Counties remain healthy, even though a recession-induced decline in tourism reduced occupancy levels by approximately two percentage points in 1982. However, 1982 occupancies exceeded 75 percent. Operators also were able to increase room rates by amounts commensurate with inflation.

Future hotel development is expected to be moderately aggressive in the next several years because of this area's relatively rural coastal setting and its close proximity to metropolitan Los Angeles. However, there are likely to be constraints placed on hotel expansion in some areas to preserve the natural coastline. We also expect growth in smaller bed-and-breakfast properties as Los Angeles area residents seek alternative vacations.

Tourism will remain an important demand generator, as Ventura and Santa Barbara Counties are convenient stopovers on the scenic coastal route between San Francisco and Southern California. Increasing business-related demand is anticipated as additional high-tech industries move north of Los Angeles, where industrial and housing costs are more reasonable.

We predict continuing overall economic health for lodging properties in Ventura and Santa Barbara Counties.

From the Wine Country

A trip to California's well-known Wine Country, with its beautifully varied countryside, historical landmarks and many wineries, is an enjoyable adventure during any season. Travelers from all over the world visit this region, either to witness the harvest time with its spectacular fall colors, spring with new signs of life sprouting from

Silicon Valley (New Projects)

Property	Location	Estimated Number of Rooms	Estimated Opening Date
Brock Residence Suites	Sunnyvale	233	January 1984
Quality Inn	Sunnyvale	70	January 1984
Holiday Inn Embassy Suites	Santa Clara	258	September 1984
Days Inn	Santa Clara	160	October 1984
Ibis Hotel	Sunnyvale	230	January 1985
Doubletree	Santa Clara	500	July 1986

every vineyard, or even the winter months when grapevines are restored to greenness by November rains.

Visitors find a wide variety of lodging facilities in the Wine Country, ranging from hotels and motels to the popular bed-and-breakfast inns. Room supply totals in excess of 1,600 rooms, with rates from $22 to $115 depending on the amenity package.

Napa Valley

Napa Valley's bed-and-breakfast inns constitute almost one-fourth of the rooms available in the area. As a group, these inns have been particularly successful in attracting less price-sensitive Wine Country visitors. Two of these properties with excellent track records are the Harvest Inn in Yountville and the Wine Country Inn in St. Helena, each with 25 rooms.

Southern Sonoma Valley

All of the Southern Sonoma Valley's major lodging properties are located in Sonoma. As in Napa, most of the properties are marketed to moderately price-sensitive visitors. However, the 98-room Sonoma Mission Inn is an exception. With excellent facilities, first-class amenities and rates that begin near $100 per night, the Sonoma Mission Inn attracts most of the less price-conscious Wine Country visitors who travel to this area.

Bed-and-breakfast inns in this area account for only 21 rooms, or 12 percent of the total room supply. Rates are significantly lower than at their Napa Valley counterparts.

Northern Sonoma Valley

The city of Santa Rosa is the dominant force in the Northern Sonoma Valley. This district has more rooms than the Napa and Southern Valley areas combined. However, few rooms are oriented toward visitors to the Wine Country. Furthermore, almost all of these rooms are low or moderately priced. Every hotel, motel and inn in the area, except for the Madrona Manor, has a rate structure that begins at less than $50. Even the area's bed-and-breakfast inns are appreciably less expensive than those in the Napa Valley.

The Madrona Manor, located in Healdsburg, opened in spring 1983. This 15-room property offers rates ranging from $75 to $115 per night, which includes the price of breakfast as well as the room. The main building is decorated with "period" antiques, many of which are original to this historic, renovated house.

L&H has determined, through research and analyses, that demand for lodging is highly correlated with winery visitation. In addition, 95 percent of demand is from tourists and 5 percent from commercial travelers. Consequently, the most reliable predictor of increases in demand is assumed to be growth in the number of visitors to area wineries. Our survey revealed that winery visitation has been growing in recent years at the following pace:

Area	Percent Increase
Napa	8.4%
Southern Sonoma Valley	9.2
Northern Sonoma Valley	3.5
Weighted Average	8.0%

The 1982 average area-wide occupancy for the total Wine Country was 68 percent. It should be noted, however, that bed-and-breakfast inns were included in calculating area-wide occupancy levels. These establishments typically experience lower occupancy levels than their full-service counterparts and affect area-wide averages accordingly.

Moderate growth is anticipated in the numbers of both tourist and commercial visitors to the Wine Country. This growth will provide a solid base of demand for future projects, including those listed in the accompanying table.

With these plus the projects planned or rumored in Napa and Sonoma, approximately 1,200 new rooms are planned for the Wine Country area by 1985. These plans for extensive lodging development, along with the trend among area cities to focus their energies on promoting themselves as quality tourist destinations, create a promising outlook for the future of the area lodging industry. ■

Wine Country (New Properties)

Property	Number of Rooms	Location	Projected Opening Date
Dry Creek Inn	100	Healdsburg	Mid-1983
Madrona Inn (expansion)	22	Healdsburg	1983
Round Barn Inn	250	North Santa Rosa	1984
Healdsburg Plaza Inn	40	Healdsburg	1985

The California Lodging Industry Study

by Janet D. Carroll
Research and Development Division

Bases of statistics

The statistics presented in this report have been computed on the most common bases used to analyze lodging operating results: amounts per available room and ratios to total sales. Most figures are presented as medians to show the "middle" position of the operating results in the sample. In appropriate cases, the arithmetic mean is used to show absolute values rather than the relative position of the item analyzed in the sample, as represented by the median.

Readers not familiar with L&H reports, and particularly those who are not well acquainted with financial statements of hotels, are advised to read carefully "Bases and Significance of Hotel Statistics," which is included in the 1983 edition of L&H's *U.S. Lodging Industry* study. Excerpts are included in this report on page 31.

The figures presented in this report are not intended to be used as standards or goals, but as guidelines. We believe that medians are most useful for that purpose.

The California lodging industry dollar

Chart 2 presents the source and distribution of the California lodging industry dollar. Of all the revenue received by properties in this survey, 62.2 percent came from room sales while food sales accounted for 21.9 percent.

The single largest expense item, payroll and related expenses, accounted for 34.1 cents of each dollar spent. A total of 24.6 cents of each incoming dollar was spent on departmental expenses and rent, municipal taxes and insurance. Interest and depreciation, other fixed costs, accounted for 4.1 and 4.2 percent respectively of each dollar. Net income before income taxes during 1982 was 9.1 percent of all revenue.

Market data

During 1982, the lodging market for California properties consisted primarily of domestic tourists who made advance reservations. Almost three of every four travelers with advance reservations made them directly to the hotel or through an established reservation system. While vacationers represented more than half of all guests in California hotels during 1982, business people and conference participants were also significant to California hoteliers, accounting for 20.6 and 19.9 percent respectively of travelers to the state during the year. Exhibit 1 presents detailed market data for 1982.

Exhibit 1
Market Data*

Source of Business	
Domestic	88.5%
Foreign	11.5
Total	100.0%
Percentage of Repeat Business	42.0%
Composition of Market	
Government Officials	1.7%
Businessmen	20.6
Tourists	52.2
Conference Participants	19.9
Other	5.6
Total	100.0%
Percentage of Advance Reservations	78.3%
Composition of Advance Reservations	
Direct	36.4%
Reservation Systems	37.7
Travel Agents & Tour Operators	16.6
Other	9.3
Total	100.0%

*Based on those supplying detail. All figures are means.

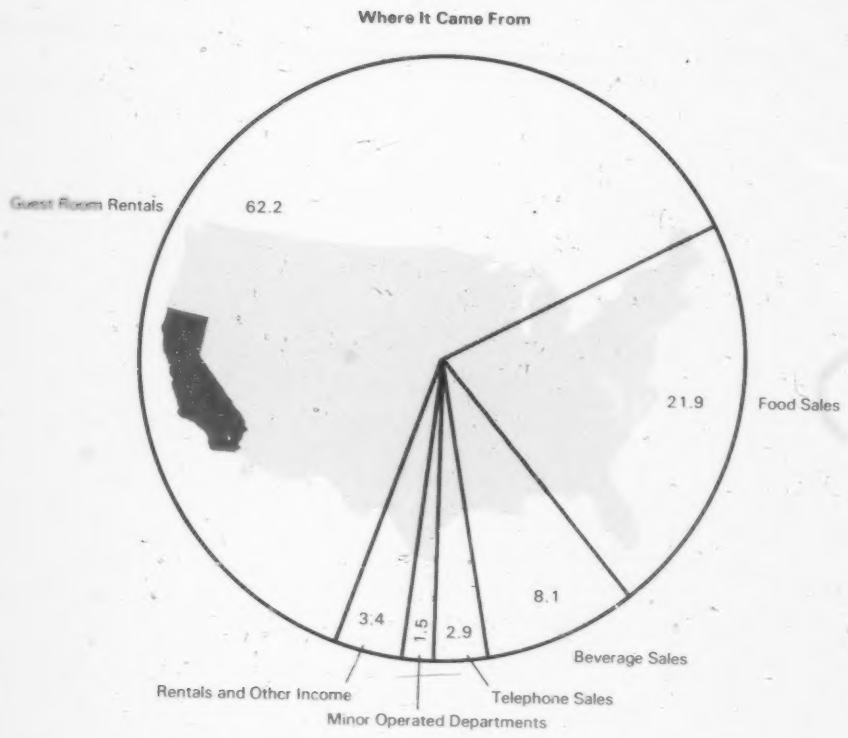
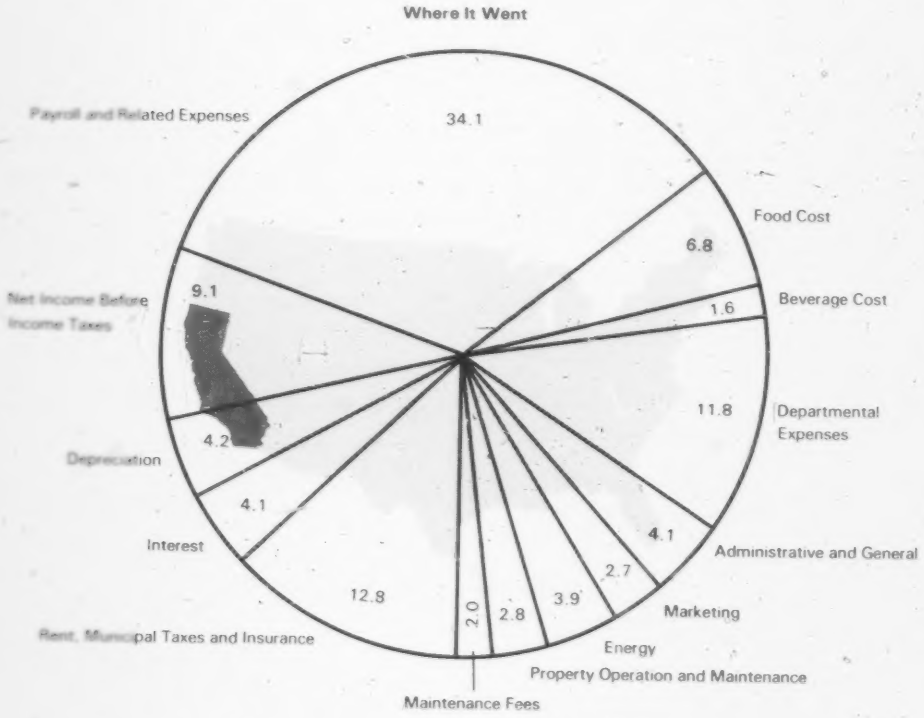


Chart 2: The California Lodging Industry Dollar 1982



Rooms department

Exhibits 2 and 3 present rooms department revenue and expenses as amounts per room, ratios to total sales and ratios to room sales. We have included quartiles in both exhibits to give a better picture of the range of reported amounts.

Net room revenue per room was $15,936, or 65.4 percent of total sales during 1982. Half of all respondents in this survey reported revenue between $12,202 and $19,514 per room. As expected, the largest drain on rooms revenue was related payroll expenses, at $2,587 or 10.8 percent of total sales in 1982, more than twice that of the total of all other rooms expenses combined. Other expenses eating away at income were operating supplies and laundry and dry cleaning, both $267 per room, and commissions, at $179 per room. Half of the respondents reported net departmental incomes between $9,200 and $14,798 for 1982. This represents 42.2 percent to 57.5 percent of total sales. The median net departmental income was 76.2 percent as a ratio to room sales.

Exhibit 2
Rooms Department Income and Expenses*

	Amounts Per Available Room			Ratios to Total Sales		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Departmental Revenue						
Sales (All Sources Including Public)	$12,109	$15,999	$19,514	60.7%	66.2%	76.7%
Allowances	(47)	(66)	(108)	(0.2)	(0.3)	(0.5)
Net Revenue	$12,202	$15,936	$19,514	58.5%	65.4%	75.3%
Departmental Expenses						
Total Payroll & Related Expenses	$ 2,056	$ 2,587	$ 3,061	8.9%	10.8%	12.7%
All Other Departmental Expenses						
Commissions (Including Travel Agents')	$ 119	$ 179	$ 328	0.5%	0.8%	1.1%
Contract Cleaning	10	30	75	0.1	0.2	0.3
Laundry & Dry Cleaning	138	267	401	0.7	1.0	1.5
Linen	104	145	178	0.4	0.6	0.7
Operating Supplies (Guest Paper, Cleaning, Printing & Stationery)	187	267	377	0.9	1.1	1.4
Reservation Expense	91	141	221	0.4	0.6	0.9
Uniforms	19	34	42	0.1	0.1	0.2
All Other Expenses	38	77	159	0.2	0.3	0.6
Total Other Departmental Expenses	$ 774	$ 1,198	$ 1,625	4.3%	5.0%	5.9%
Total Departmental Expenses	$ 2,849	$ 3,888	$ 4,622	13.5%	15.6%	13.3%
Net Departmental Income (Loss)	$ 9,200	$11,943	$14,798	42.2%	50.4%	57.5%

*All figures are medians and quartiles and do not necessarily add to totals shown.

Occupancy and average rate

The occupancy rate for properties in this survey was 76.5 percent, while the average room rate was $57.06. Although 25 percent of all properties surveyed reported an overall occupancy in excess of 82.4 percent, the same number of properties reported figures below 69.8 percent, quite respectable during a year when properties were struggling to keep pace with prior years' results. Productivity, total sales per dollar of payroll and related expenses, was $3.15. Exhibit 4 presents additional detail and statistics.

Exhibit 3
Rooms Department Income and Expenses—Ratios to Room Sales*

	Lower Quartile	Median	Upper Quartile
Departmental Revenue			
Sales (All Sources Including Public)	100.1%	100.4%	100.6%
Allowances	(0.3)	(0.5)	(0.7)
Net Revenue	100.0%	100.0%	100.0%
Departmental Expenses			
Payroll			
Salaries & Wages	10.8%	11.6%	13.5%
Employee Benefits (Including Payroll Taxes & Meals)	3.5	4.1	4.9
Total Payroll & Related Expenses	14.5%	16.3%	17.9%
All Other Departmental Expenses			
Commissions (Including Travel Agents)	0.9%	1.3%	1.8%
Contract Cleaning	0.1	0.2	0.5
Linen	0.7	0.8	1.1
Laundry & Dry Cleaning	1.1	1.6	2.1
Operating Supplies (Guest Paper, Cleaning, Printing & Stationery)	1.4	1.6	2.2
Reservation Expense	0.6	0.9	1.4
Uniforms	0.1	0.2	0.3
All Other Expenses	0.3	0.5	1.1
Total Other Departmental Expenses	6.5%	7.8%	9.4%
Total Department Expenses	22.3%	23.8%	26.6%
Net Departmental Income (Loss)	73.4%	76.2%	77.7%

*All figures are medians or quartiles and do not necessarily add to totals shown.

Exhibit 4
Occupancy and Average Rate*

	Lower Quartile	Median	Upper Quartile
Average Room Rate	$46.18	$57.06	$69.79
Average Room Rate (Per Guest)	$33.12	$38.08	$46.81
Occupancy	69.8%	76.5%	82.4%
Double Occupancy	30.7%	43.4%	59.8%
Productivity Index	$ 2.78	$ 3.15	$ 3.50

*All figures are medians and quartiles and do not necessarily add to totals shown.

Food and beverage department

Exhibits 5 and 6 present important food and beverage information, including figures relating to total sales as well as to the entire U.S. lodging industry to provide as complete a picture as possible. Half of all survey respondents that provided detailed information reported that between 70 and 78 percent of their food and beverage revenue came from food sales. Food costs as a ratio to food sales were 31.6 percent, while beverage costs as a ratio to beverage sales were 20.1 percent. Before payroll and departmental expenses are subtracted from food and beverage sales, 76.1 percent of these sales remained. Payroll and related expenses absorbed close to half of all its related sales. No other related food and beverage median cost exceeded 2.5 percent of the departmental sales. All revenue and expenses considered, the median departmental income was 18.5 percent of food and beverage sales.

Food sales per room at California properties exceeded those of the total U.S. lodging industry, while beverage sales per room were slightly below the nation's median. The respondents for the state of California seemed particularly strong in banquet sales compared with the entire

Exhibit 5
Food and Beverage Department Income and Expenses

	Ratios to Total Food and Beverage Sales		
	Lower Quartile	Median	Upper Quartile
Sales			
Food	70.0%	74.6%	78.0%
Beverage	22.0	25.4	30.1
Total	100.0%	100.0%	100.0%
Cost of Sales			
Food*	29.4%	31.6%	34.1%
Beverage**	18.2	20.1	22.1
Total	27.1%	28.8%	30.7%
Gross Profit	69.3%	71.2%	72.9%
Other Income	2.8	5.2	6.4
Gross Profit & Other Income	73.1%	76.1%	79.2%
Departmental Expenses			
Payroll & Related Expenses	40.5%	47.1%	55.2%
Music & Entertainment	1.0	2.0	3.8
China, Glassware, Silver, Linen	1.0	1.4	2.1
Contract Cleaning	0.2	0.3	0.7
Kitchen Fuel	0.1	0.4	0.6
Laundry & Dry Cleaning	0.6	1.1	1.3
Licenses	0.1	0.1	0.3
Operating Supplies	1.8	2.3	2.8
Other Operating Expenses	0.3	0.7	1.3
Uniforms	0.3	0.4	0.5
All Other Expenses	0.7	1.2	2.1
Total Departmental Expenses	51.4%	57.8%	64.5%
Departmental Income	10.2%	18.5%	24.5%

*After credit for employees' meals. Food cost shown as a percentage of food sales.
**Beverage cost shown as a percentage of beverage sales.

country. Median food sales and beverage sales per room for banquets at California properties were $1,577 and $530 respectively, compared with U.S. medians of $1,047 and $338.

The average check for California properties reporting sufficient information was $7.73, boosted by the banquet median of $12.33. On a per seat basis, the median food sales and beverage sales per seat exceeded the U.S. medians.

Exhibit 6
Food and Beverage Statistics—By Selected Criteria*

	California			
	Lower Quartile	Median	Upper Quartile	United States
Food Sales—By Facility				
Amount Per Available Room				
Dining Room	$2,050	$2,749	$3,836	$2,343
Room Service	266	425	735	333
Banquet	385	1,577	2,928	1,047
Bar/Lounge*	12	44	245	112
Total	$2,708	$4,531	$8,172	$3,613
Ratio to Total Food Sales				
Dining Room	50.2%	58.9%	83.9%	66.6%
Room Service	4.5	7.7	10.3	6.1
Banquet	15.6	33.6	43.9	29.3
Bar/Lounge	0.3	0.5	3.1	2.1
Amount Per Seat				
Dining Room	**	**	**	$4,708
Banquet	**	**	**	705
Bar/Lounge	**	**	**	217
Total	$1,771	$2,386	$3,762	$1,959
Average Check				
Dining Room	$ 4.65	$ 5.94	$ 7.98	$ 6.30
Room Service	7.77	9.72	13.29	6.85
Banquet	11.45	12.33	14.49	11.41
Total	$ 5.92	$ 7.73	$10.36	$ 6.86
Covers Served Per Seat				
Dining Room	752	985	1,217	643
Banquet	53	73	107	73
Room Service Sales				
Per Occupied Room				
Food	$ 1.17	$ 1.55	$ 2.53	$ 1.45
Beverage	.24	.35	1.05	.46
Total	$ 1.50	$ 1.89	$ 3.37	$ 1.79
Per Guest				
Food	$ .79	$ 1.08	$ 1.40	$ 1.05
Beverage	.20	.25	.59	.30
Total	$ 1.05	$ 1.34	$ 1.69	$ 1.28

*All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

(continued on next page)

Staffing levels and employee productivity

For those providing sufficient information, the total number of employees per 100 available rooms was 65.5. Half of the respondents employed between 39.2 and 82.2 people to keep their operations at acceptable standards. More than half of total employees worked on the rooms department or food and beverage staffs, the most service-oriented areas of a hotel and a primary reason why many guests return to a particular property.

The total number of employees on the hotel staff per 100 occupied rooms was 87.6. The

Exhibit 6 (continued)*

	California			
	Lower Quartile	Median	Upper Quartile	United States
Beverage Sales — By Facility				
Amount Per Available Room				
Dining Room	$282	$ 587	$ 943	$ 679
Room Service	57	84	251	100
Banquet	228	530	874	338
Bar/Lounge	566	882	1,332	1,011
Total	$921	$1,581	$3,003	$1,718
Ratio to Beverage Sales				
Dining Room	13.2%	25.8%	70.8%	31.9%
Room Service	3.0	5.0	9.1	4.5
Banquet	12.4	20.9	30.6	17.6
Bar/Lounge	40.5	64.2	100.0	65.6
Ratio to Food Sales				
Dining Room	10.4%	16.4%	35.6%	20.0%
Room Service	16.2	22.3	32.1	28.3
Banquet	19.1	23.0	26.4	23.7
Total (Including Bar/Lounge)	28.2%	34.1%	43.0%	41.0%
Amount Per Seat				
Dining Room	**	**	**	$ 693
Banquet	**	**	**	157
Bar/Lounge	**	**	**	2,901
Total	$607	$ 890	$1,660	$ 801

*All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

median numbers of people on the rooms department and food and beverage payrolls were 22.8 and 40 per 100 occupied rooms respectively. Complete detail by department is presented in Exhibit 7.

Exhibit 8 presents total sales per full-time equivalent (FTE) employee for each department. A range is presented to give a better idea of the results. The median total sales per FTE employee for the reporting properties was $57,163 during 1982. Half of the survey respondents providing the necessary detail reported between $44,985 and $64,350 per FTE employee.

Exhibit 7
Staffing Levels—Full-Time Equivalent Employees*

	Number of Employees Per 100 Available Rooms			Number of Employees Per 100 Occupied Rooms		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Rooms	13.3	17.7	25.8	20.0	22.8	42.9
Food & Beverage	14.7	26.7	37.0	23.8	40.0	65.4
Telephone	0.8	1.3	2.1	1.2	1.9	3.0
Minor Operated Departments	1.0	2.5	3.6	1.6	3.8	4.8
Administrative & General	3.2	4.5	7.2	4.9	6.8	12.8
Marketing—Sales	1.0	1.2	2.0	1.4	1.7	2.8
Marketing—Other	**	**	**	**	**	**
Property Operation & Maintenance	2.0	3.2	4.5	3.1	4.8	6.7
Personnel	0.3	0.5	1.1	0.5	0.7	1.8
House Laundry	0.8	2.0	2.3	1.4	3.4	5.4
Other	0.7	1.6	2.6	1.0	2.4	3.1
Total Full-Time Equivalent Employees	39.2	65.5	82.2	54.6	87.6	140.2

*Based on those supplying detail. All figures are medians or quartiles and do not necessarily add to totals shown.
**Insufficient response.

Exhibit 8
Employee Productivity—Sales Per Full-Time Equivalent Employee

	Lower Quartile	Median	Upper Quartile
Rooms	$80,285	$104,395	$131,445
Food & Beverage	31,846	45,745	48,944
Telephone	33,032	78,005	99,773
Minor Operated Departments	26,103	32,376	48,433
Total Sales Per Employee	$44,985	$ 57,163	$ 64,350

*Based on those supplying detail. All figures are medians or quartiles and do not necessarily add to totals shown.

Payroll and related expenses

Median rooms and food and beverage department payroll and related costs per available room were $2,558 and $2,963 respectively during 1982. Half of all properties in this survey reported their administrative and general payroll and related expenses to be between $532 and $1,426, with a median of $988. The only other department with significant payroll expenditures was property operation and maintenance, with half of all respondents reporting between $352 and $1,146 and a median result of $559 for this year's survey. The median total payroll costs per available room during 1982 was $6,909. Complete detail by department is presented in Exhibit 9.

On a cost per occupied room per day basis, the median total cost was $30.25, with half of all respondents reporting in a range between $19.06 and $40.36. The heavily staffed departments, rooms and food and beverage, each had costs in excess of $9. Median administrative and general and property operation and maintenance payroll and related expenses per occupied room per day were $3.95 and $2.28 respectively. Exhibit 10 presents additional detail by department for these payroll and related expenses.

Exhibit 9
Payroll and Related Expenses—Cost Per Available Room*

	Lower Quartile	Median	Upper Quartile
Rooms	$2,049	$2,558	$ 3,056
Food & Beverage	1,889	2,963	4,955
Telephone	133	202	264
Minor Operated Departments	10	55	276
Administrative & General	532	988	1,426
Marketing	198	325	415
Property Operation & Maintenance	352	559	1,146
House Laundry	144	258	401
Total Cost Per Available Room	$5,333	$6,909	$10,708

*All figures are medians or quartiles and do not necessarily add to totals shown.

Exhibit 10
Payroll and Related Expenses—Cost Per Occupied Room Per Day*

	Lower Quartile	Median	Upper Quartile
Rooms	$ 7.43	$ 9.35	$11.55
Food & Beverage	7.01	12.44	18.72
Telephone	.48	.75	.99
Minor Operated Departments	.04	.18	1.38
Administrative & General	1.87	3.95	5.20
Marketing	.82	1.35	1.76
Property Operation & Maintenance	1.37	2.28	4.04
House Laundry	.82	.96	1.45
Other	.15	.49	1.09
Total Cost Per Occupied Room Per Day	$19.06	$30.25	$40.36

*All figures are medians or quartiles and do not necessarily add to totals shown.

Undistributed operating expenses

Administrative and general expenses

Exhibit 11 presents complete detail for all administrative and general expenses as amounts per available room and ratios to total sales. Median total payroll and related expenses of $992 per available room and 4.2 percent of total sales were slightly less than the rest of administrative and general expenses combined during 1982. This median total of other expenses, $999 per available room, consisted mainly of credit card commissions, insurance and miscellaneous expenses, totaling $330, $124 and $186 per available room respectively. Median total administrative and general expenses for California properties were $2,062 per available room, 29.9 percent greater than the median for properties throughout the United States during the year. As a percentage of total sales, however, properties in California actually spent less, at 8.4 percent compared with 9.1 percent nationwide.

Exhibit 11
Administrative and General Expenses*

	Amounts Per Available Room			Ratios to Total Sales		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Total Payroll & Related Expenses	$ 543	$ 992	$1,429	3.2%	4.2%	5.1%
Other Expenses						
Bad Debts	$ 26	$ 53	$ 83	0.1%	0.2%	0.3%
Credit Card Commissions	221	330	448	1.1	1.3	1.5
Data Processing Service	18	47	81	0.1	0.2	0.3
Insurance (General)	93	124	167	0.4	0.5	0.6
Licenses & Dues	15	31	47	N	0.1	0.2
Operating Supplies (Printing, Stationery, Postage, Office Supplies)	45	70	101	0.2	0.3	0.4
Professional Fees	15	50	125	N	0.2	0.5
Security (Detectives, Watchmen Service)	5	36	86	N	0.3	0.6
Travel & Entertainment	23	35	67	N	0.2	0.2
All Other Expenses	130	186	278	0.5	0.8	1.5
Total Expenses (Excluding Payroll)	$ 751	$ 999	$1,406	3.6%	4.3%	5.4%
Total Administrative & General Expenses	$1,411	$2,062	$2,576	7.3%	8.4%	10.1%
Total for United States	$1,130	$1,587	$2,360	7.5%	9.1%	11.5%

*Based on those hotels supplying detail. All figures are medians and quartiles and do not necessarily add to totals shown.
N-Negligible.

Marketing expenses

Marketing payroll and related expenses, franchise fees and printed advertising absorbed a significant portion of costs per room during 1982, as Exhibit 12 shows. While none of these three expenses exceeded 1.4 percent of total sales, median total marketing expenses were only 3.8 percent of total sales. The remaining marketing expenditures were minimal in the total picture. A median of $71 or less (or 0.3 percent of total sales) was spent in these areas.

Energy expenses

Exhibit 13 presents all energy costs as amounts per available room and as costs per occupied room per day for the state of California and total figures for the entire United States. Electricity costs were $659 per available room, more than two-thirds of total energy expenses during 1982. On a cost per occupied room basis, median electricity and steam expenses both exceeded $2. Total energy expenses per occupied room per day were $3.48, more than 15 percent less

Exhibit 12
Marketing Expenses*

	Amounts Per Available Room			Ratios to Total Sales		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Payroll & Related Expenses — Sales	$220	$ 334	$ 417	1.0%	1.3%	1.6%
Sales — Travel & Entertainment (Including Trade Shows)	16	59	138	0.1	0.2	0.4
Other (Operating Supplies, Postage, etc.)	15	28	93	N	0.1	0.4
Advertising						
Print (Newspapers, Magazines)	79	185	338	0.5	0.7	0.9
Radio & TV	4	25	65	N	N	0.3
Outdoor	8	17	51	N	0.1	0.2
Other (Exchange Production Costs)	24	71	323	N	0.3	1.1
Merchandising (In-House Graphics, Other Selling Aids, Point-of-Sale Material)	15	40	77	N	0.1	0.3
Public Relations & Publicity (Excluding Payroll)	9	33	107	N	0.2	0.4
Fees & Commissions						
Franchise Fees	207	272	368	1.2	1.4	1.6
Other (Agency Fees, etc.)	9	29	74	N	N	0.3
Other Selling & Promotional Expenses	12	44	181	N	0.2	0.7
Total Expenses (Excluding Payroll)	$380	$ 662	$ 982	1.8%	2.7%	3.2%
Total Marketing Expenses	$559	$1,037	$1,330	2.9%	3.8%	5.1%
Total for United States	$420	$ 778	$1,292	2.8%	4.5%	6.3%

*Based on those hotels supplying detail. All figures are medians and quartiles and do not necessarily add to totals shown.
N Negligible

than the median total energy cost figure for the entire United States.

Property operation and maintenance

The distribution of property operation and maintenance expenses for those properties that reported each expense item is shown in Exhibit 14 as amounts per available room and as ratios to total sales. The payroll and related expenses, both as an amount per room and as a ratio to total sales, exceeded the total of all other expenses for responding California properties. No other median expense in this category exceeded 1 percent of total sales. Electrical and mechanical equipment expenses were a distant second in total expenditures per available room at $248. Total property operation and maintenance expenses were $1,199 per available room, or 5.1 percent of total sales.

Exhibit 13
Energy Expenses—Amounts Per Available Room and Costs Per Occupied Room Per Day*

	Amounts Per Available Room			Cost Per Occupied Room Per Day		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Electricity	$517	$659	$ 799	$1.80	$2.41	$3.48
Fuel	127	229	338	.45	.81	1.20
Steam	51	299	767	.44	2.11	3.29
Water	49	81	105	.19	.29	.40
Total Energy Expenses	$744	$911	$1,255	$2.63	$3.48	$5.17
Total United States	$738	$947	$1,280	$3.10	$4.10	$5.66

*Based on those hotels supplying detail. All figures are medians and quartiles and do not necessarily add to totals shown.
**Insufficient data.

Exhibit 14
Property Operation and Maintenance*

	Amounts Per Available Room			Ratios to Total Sales		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Total Payroll & Related Expenses	$351	$ 585	$1,160	1.9%	2.6%	3.5%
Other Expenses						
Building	$ 21	$ 45	$ 96	0.1%	0.2%	0.4%
Electrical & Mechanical Equipment	125	248	389	0.5	1.0	1.4
Furniture	16	26	59	N	0.1	0.2
Grounds & Landscaping	28	44	73	0.1	0.2	0.4
Operating Supplies	10	19	43	N	N	0.2
Painting & Decorating	8	15	30	N	N	0.1
Removal of Waste Matter	26	42	59	0.1	0.2	0.2
All Other Expenses (Net of Credits)	30	52	125	0.1	0.2	0.5
Total Other Expenses (Excluding Payroll, etc.)	$374	$ 554	$ 841	1.8%	2.5%	3.2%
Total Property Operation & Maintenance Expenses	$737	$1,199	$1,886	4.2%	5.1%	6.1%
Total for United States	$698	$ 933	$1,365	4.7%	5.6%	7.2%

*Based on those hotels supplying detail. All figures are medians and quartiles and do not necessarily add to totals shown.
N-Negligible.

Fixed charges

Of the three highest fixed charges reported by California properties, two are not cash outlays. These median expenses, interest and depreciation and amortization, were $842 and $1,180 per available room or 5 and 6 percent of total sales respectively. The median rent expense during 1982 for those properties that reported it was $1,136 per available room. One-fourth of the survey respondents spent more than 19.8 percent of total sales on rent in 1982. The median total fixed charges was $2,841, or 17.3 percent of sales. Exhibit 15 contains complete detail on all fixed charges.

Balance sheet statistics

The current position (the ability to cover short-term debt with readily available assets) of properties in California was $1.16 for 1982. The

Exhibit 15
Fixed Expenses

	Amounts Per Available Room			Ratios to Total Sales		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Rent	$ 180	$1,136	$5,183	0.8%	4.2%	19.8%
Property Taxes (Real Estate, Personal Property & Other Municipal Taxes)	183	245	356	1.0	1.3	1.7
Property Insurance	71	101	139	0.3	0.6	0.7
Interest	228	842	2,327	1.6	5.0	10.3
Depreciation & Amortization	888	1,180	1,483	3.8	6.0	8.1
Total Fixed Expenses	$1,628	$2,841	$6,088	8.4%	17.3%	25.6%

median accounts receivable balance was 3.7 percent as a ratio to total sales. Half of the properties supplying sufficient information reported their accounts receivable balance to be between 2 and 5.5 percent of total sales as of year-end 1982. Food inventory and beverage inventory was $107 and $76 per available room respectively. Details are in Exhibit 16.

Summary

A summary of all departmental expenses is presented in Exhibit 17 as amounts per available room and as ratios to total sales. Included are management fees, significant categories in the rooms and food and beverage departments, and administrative and general expenses. ■

Exhibit 16
Balance Sheet Ratios

	Lower Quartile	Median	Upper Quartile
Current Position	$0.83	$ 1.16	$ 1.72
Accounts Receivable			
Amount Per Room	$ 351	$1,331	$1,941
Ratio to Total Sales	2.0%	3.7%	5.5%
Number of Times Average Daily Sales	8	14	20
Food Inventory			
Amount Per Room	$ 77	$ 107	$ 155
Annual Turnover	23	28	53
Beverage Inventory			
Amount Per Room	$ 49	$ 76	$ 224
Annual Turnover	5	7	8

*All figures are medians. Accounts receivable and inventory figures are for end of year.

Exhibit 17
Summary Statement of Income and Expenses*

	Amounts Per Available Room			Ratios to Total Sales		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Rooms						
Net Revenue	$12,071	$15,544	$19,219	100.0%	100.0%	100.0%
Departmental Expenses						
Payroll & Related Expenses	$ 2,049	$ 2,558	$ 3,056	14.5%	16.3%	17.9%
Other	768	1,176	1,611	6.5	7.8	9.4
Total	$ 2,827	$ 3,809	$ 4,582	22.3%	23.8%	26.6%
Departmental Income	$ 9,072	$11,836	$14,798	73.4%	76.2%	77.7%
Food & Beverage Sales						
Food	$ 2,708	$ 4,531	$ 8,172	70.0%	74.6%	78.0%
Beverage	921	1,581	3,003	22.0	25.4	30.1
Total	$ 3,843	$ 6,113	$11,313	100.0%	100.0%	100.0%
Cost of Sales						
Food	$ 932	$ 1,402	$ 2,530	29.4%	31.6%	34.1%
Beverage	173	373	626	18.2	20.1	22.1
Total	$ 1,183	$ 1,681	$ 3,193	27.1%	28.8%	30.7%
Gross Profit	$ 2,594	$ 4,431	$ 8,247	69.3%	71.2%	72.9%
Public Room Sales	$ 121	$ 227	$ 479	2.0%	4.6%	6.3%
Other Income	$ 2	$ 21	$ 101	0.1%	0.4%	1.1%
Gross Profit & Other Income	$ 2,716	$ 4,855	$ 8,615	73.1%	76.1%	79.2%
Departmental Expenses						
Payroll & Related Expenses	$ 1,889	$ 2,963	$ 4,955	40.5%	47.1%	55.2%
Other	340	640	1,209	8.2	10.0	12.2
Total	$ 2,262	$ 3,708	$ 6,138	51.4%	57.8%	64.5%
Departmental Income	$ 458	$ 915	$ 2,508	10.2%	18.5%	24.5%
Minor Operated Departments & Other Income (Net)	$ 29	$ 68	$ 127	N	0.4%	0.6%
Telephone Departmental Income	$ (199)	$ (90)	$ 11	(0.9)%	(0.3)%	N
Rentals & Other Income	$ 55	$ 344	$ 743	0.6%	1.3%	2.8%
Gross Income	$10,490	$13,632	$16,675	52.2%	56.4%	61.3%
Undistributed Operating Expenses						
Administrative & General Expenses						
Payroll & Related Expenses	$ 543	$ 992	$ 1,429	3.2%	4.2%	5.1%
Other	751	999	1,406	3.6	4.3	5.4
Total	$ 1,411	$ 2,062	$ 2,576	7.3%	8.4%	10.1%
Marketing	559	1,037	1,330	2.9	3.8	5.1
Energy Costs	744	911	1,255	3.6	4.2	4.9
Property Operation & Maintenance	737	1,199	1,886	4.2	5.1	6.1
Total Undistributed Expenses	$ 3,750	$ 5,069	$ 7,108	18.8%	21.5%	26.2%
Income Before Management Fees	$ 5,656	$ 8,228	$10,887	26.1%	34.3%	41.8%
Management Fees	$ 540	$ 933	$ 1,291	3.0%	3.2%	4.1%
Income Before Fixed Charges	$ 5,363	$ 7,705	$10,312	26.1%	32.3%	40.4%
Fixed Charges	$ 1,628	$ 2,841	$ 6,088	8.4%	17.3%	25.6%
Income Before Income Tax	$ 1,824	$ 3,966	$ 5,740	8.2%	18.0%	24.9%

*All amounts are medians and quartiles and do not necessarily add to totals shown. All ratios are based on total sales except those of the rooms and food and beverage departments. Cost of sales is shown as a percentage of the corresponding sales. Food and beverage departmental expense ratios are based on the combined food and beverage sales.

Bases and Significance of Lodging Statistics

Number of rooms

The number of rooms used in several computations is the total number of rooms available for guest rental during the year. All rooms used for management, employees and storerooms are not included in these totals.

Room occupancy

The percentage of room occupancy is computed by dividing the total number of rooms occupied by the total number of rooms available for occupancy throughout the year. Seasonal fluctuations are thus removed, allowing properties in various locations to be compared for the same period. Seasonal variations can be seen when analyzed on a monthly basis, such as in the *National Trend of Business in the Lodging Industry*.

Average room rate

The average room rate is computed by dividing rooms revenue, net of all allowances, by the total number of rooms occupied. Affecting this rate is the percentage of double occupancy associated with each property. Double occupancy is the percentage of rented rooms occupied by two or more persons. As the double occupancy increases, the room rate also should rise, since lodging facilities customarily charge a fee for each additional person occupying the guest room.

Comparison of operating results

Due to the current uncertainties surrounding financing methods, operators of lodging establishments may lease all or part of their assets. Because of high construction and interest costs, many operators have turned to creative financing techniques. Fixed costs may differ significantly for operators who lease their assets compared with those who own theirs. It is difficult to compare those operations with high depreciation and interest charges with those that are not required to pay any of those fees. To alleviate any possible difficulties in comparison, it is recommended that the reader analyze results before fixed charges are deducted.

Means, medians and quartiles

Most of the figures in this lodging survey are given as medians and quartiles rather than means. The median and upper and lower quartiles are calculated by first arraying all the numbers in the order of the lowest to the highest figure. The number that falls in the middle of the list is the median. The figure halfway between the lowest number and the median is the lower quartile, while the figure halfway between the median and the highest number is the upper quartile. To arrive at an arithmetic mean, divide the sum of the values by the number of items used. Table 1 illustrates the difference between the two.

The inclusion of a unit with high sales per occupied room may bring about a mean that is not as representative of the group as the median.

Productivity index

The productivity index measures employee productivity in terms of the total revenue received for each dollar spent on payroll expenses. It is computed by dividing total revenue by total payroll and related expenses.

Inventory turnover

Gross cost before deducting employees' meals divided by the average of the opening and ending inventories.

Explanation of Terms

Room sales

Guest room revenue from accommodations on a part-day, full-day or longer period basis, net of any rebates and discounts.

Rentals and other income

Rental income from stores, offices, clubs and other spaces not classified as concessions used for business purposes. Also includes revenue from concessions, income from vending machine operations, commissions (including pay stations) and interest earned.

Restaurant

Cost (Food)—Cost of food sold, after deduction of the cost of employees' meals.

Cost (Beverage)—Cost of beverages sold, after deduction of the cost of employees' beverages.

Payroll—Stewards, chefs, cooks, waitress and busboys, dishwashers, butchers, vegetable cleaners, bakers, pantry help, etc.; wine stewards and bartenders; stock clerks, storekeepers, cost clerks, checkers and cashiers.

Table 1

	Room Sales	Occupied Rooms	Room Sales Per Occupied Room
Hotel A	$ 800,000	42,600	$ 18.78
Hotel B	1,200,000	56,550	21.22
Hotel C	1,450,000	58,750	24.68
Hotel D	1,875,000	61,725	30.38
Hotel E	2,225,000	66,500	33.46
Total	$7,550,000	286,125	$128.52
Median			$ 24.68
Mean	($128.52/5)		$ 25.70

Income, Departmental—Total restaurant sales and other restaurant income less total cost of food and beverages consumed, payroll and related expenses and other direct restaurant expenses.

Sales, Total Restaurant (Food and Beverage)—Gross sales of food and beverages less allowances. Cover charges and other miscellaneous restaurant income are not included.

Management fees

Fees charged by a management organization for management service or supervision should be charged to this account.

Income before fixed charges

For purposes of this study, income before fixed charges is defined as total departmental revenue from all sources (rooms, telephone, food and beverage department income, minor operated departments income, store rentals and other income) less all departmental and undistributed operating expenses. This is the income from all operations before deducting rent, property taxes, property insurance, interest, depreciation and income taxes.

Further explanation may be found in *Uniform System of Accounts for Hotels*.

Analyze Your Operation

Periodic analysis of the financial performance of your lodging establishment may provide early warning signs of potential problems. Examination on a regular basis could reveal undesirable trends and provide the opportunity for corrective action. The worksheet on the next page is designed to provide a quick analysis of key items to reveal problem areas.

Follow these simple instructions for completing the worksheet:

1. Enter your figures in the first column.
2. Select from the tables or text the appropriate medians or quartiles for comparison.
3. If the variance is greater than plus or minus 10 percent, further analysis should be made to determine the reason for that variance.

Worksheet

Amount Per Available Room	Your Figures	Medians From *California Lodging Industry Report*		
Sales				
Rooms	$			
Food	$			
Beverage	$			
Other Departments	$			
Total	$			
Payroll and Related Expenses	$			
Undistributed Expenses (Excluding Payroll)				
Administrative & General	$			
Marketing	$			
Energy Costs	$			
Property Operation & Maintenance	$			
Income Before Management Fees & Fixed Charges	$			
Management Fees	$			
Income Before Fixed Charges	$			
Fixed Charges	$			
Rent	$			
Property Taxes	$			
Insurance	$			
Interest	$			
Depreciation	$			
Total	$			
Net Income Before Income Tax	$			

Supplemental Operating Information

General Statistics				
Occupancy	%	%	%	%
Double Occupancy	%	%	%	%
Average Rate Per Occupied Room	$	$	$	$
Income Before Fixed Charges				
Ratio to				
Room Sales	%	%	%	%
Total Sales	%	%	%	%
Cost of Food Sales (After Credit For Employee Meals)	%	%	%	%
Cost of Beverage Sales	%	%	%	%
Balance Sheet Ratios				
Current Position	times	times	times	times
Accounts Receivable—Ratio to Total Sales	%	%	%	%
Inventory Turnover				
Food	times	times	times	times
Beverage	times	times	times	times

Laventhol & Horwath

Certified Public Accountants

Executive Offices: 1845 Walnut Street, Philadelphia, PA 19103
215-299-1600 Telex: 83-1396 HORWINTAS PHA

Alaska
310 K St., Suite 400
Anchorage, Alaska 99501
907-276-5811

Arizona
1314 N. Third St., Suite 100
Phoenix, Ariz. 85004
602-252-0920

5151 E. Broadway, Suite 1200
Tucson, Ariz. 85711
602-790-2255

California
695 Town Center, Suite 310
Costa Mesa, Calif. 92626
714-556-4244

3699 Wilshire Blvd.
Los Angeles, Calif. 90010
213-381-5393
Telex: 4992753 HORWINTAS LSA

Two Century Plaza, Suite 3700
2049 Century Park East
Los Angeles, Calif. 90067
213-553-1040
Telex: 696374

2570 El Camino Real, Suite 310
Mountain View, Calif. 94040
415-941-3537

1200 Third Ave., Suite 1424
San Diego, Calif. 92101
619-236-1188

50 California St., Suite 2450
San Francisco, Calif. 94111
415-989-0110

Colorado
1800 Emerson St.
Denver, Colo. 80218
303-861-2500

Connecticut
Park City Plaza
10 Middle St.
Bridgeport, Conn. 06604
203-333-5133

District of Columbia
1901 L St., N.W.
Washington, D.C. 20036
202-463-0700
Telex: 62100620 HORWINTAS

2115 E. Jefferson St.
Rockville, Md. 20852
301-468-0888

Florida
201 Alhambra Circle
Coral Gables, Fla. 33134
305-442-2000
Telex: 264822 LH MIA UR

Barnett Plaza, Suite 1010
201 S. Orange Ave.
Orlando, Fla. 32801
305-843-9240

One Tampa City Center
201 N. Franklin St., Suite 2900
Tampa, Fla. 33602
813-228-7555

Royal Trust Building, Suite 1100
1645 Palm Beach Lakes Blvd.
West Palm Beach, Fla. 33401
305-689-6600

Georgia
225 Peachtree St., N.E.
Suite 2300, South Tower
Atlanta, Ga. 30303
404-581-0100

Illinois
P.O. Box 2618
1116 W. Main St.
Carbondale, Ill. 62901
618-457-8158

300 S. Riverside Plaza
Chicago, Ill. 60606
312-648-0555

Marriott Commerce Bldg.
509 S. 6th St.
Springfield, Ill. 62701
217-544-8955

Indiana
8900 Keystone Crossing,
Suite 305
Indianapolis, Ind. 46240
317-848-7133

Massachusetts
Two Center Plaza
Boston, Mass. 02108
617-742-6100
Telex: 940899 LAV HOR BSN

Michigan
26400 Lahser Rd., Suite 200
Southfield, Mich. 48034
313-354-6000

Minnesota
100 Washington Square, Suite 1050
Minneapolis, Minn. 55401
612-332-5500

Missouri
1100 CharterBank Center
920 Main St.
Kansas City, Mo. 64105
816-221-6500
Telex: 750189 LAVENTHOL UD

Ten Broadway, Suite 1000
St. Louis, Mo. 63102
314-421-1710

Nevada
Valley Bank Center, 7th Floor
101 Convention Center Dr.
Las Vegas, Nev. 89109
702-737-5533

New Jersey
Turnpike Plaza Bldg.
197 Highway 18
East Brunswick, N.J. 08816
201-257-6000

New York
445 Broad Hollow Rd.
Melville, N.Y. 11747
516-694-0530

919 Third Ave.
New York, N.Y. 10022
212-980-3100
Telex: 236501 LNH UR

1776 Broadway
New York, N.Y. 10019
212-586-6015
Telex: 640279

North Carolina
One NCNB Plaza,
Suite 3420
Charlotte, N.C. 28280
704-377-0220

Ohio
National City Center
1900 E. 9th St.
Cleveland, Ohio 44114
216-696-4770

88 E. Broad St., Suite 980
Columbus, Ohio 43215
614-221-9494

1500 N. Main St.
Niles, Ohio 44446
216-369-5140

Oregon
1850 Georgia Pacific Bldg.
900 S.W. Fifth Ave.
Portland, Ore. 97204
503-221-0141

Pennsylvania
The G.S.B. Bldg.
Bala Cynwyd, Pa. 19004
215-839-4500

P.O. Box 1865
Harrisburg, Pa. 17105
717-761-7171

1845 Walnut St.
Philadelphia, Pa. 19103
215-299-1700
Telex: 83-1396 HORWINTAS PHA

15 S. Franklin St.
Wilkes-Barre, Pa. 18701
717-822-1174

Puerto Rico
1701 Banco Popular Center
Hato Rey, P.R. 00918
809-765-5580

Rhode Island
40 Westminster St.
Providence, R.I. 02903
401-421-4800

Texas
2121 San Jacinto St.,
Suite 1700
Dallas, Tex. 75201
214-754-7100
Telex: 730903 HORWINTAS DAL

333 Clay St., Suite 1100
Houston, Tex. 77002
713-658-1071

Washington
Metropolitan Park
1100 Olive Way
Seattle, Wash. 98101
206-621-1900

DIVISIONS

Valuation Counselors, Inc.
230 W. Monroe St.
Chicago, Ill. 60606
312-368-0200

2055 Craigshire Dr.,
Suite 410
St. Louis, Mo. 63146
314-576-0035

Valuation Counselors Eastern, Inc.
Princeton Pike Office Park,
CN 30
Princeton, N.J. 08540
609-896-0300

Valuation Counselors Central, Inc.
230 W. Monroe St.
Chicago, Ill. 60606
312-368-0900

Valuation Counselors Southeastern, Inc.
340 Interstate North Pkwy.,
Suite 440
Atlanta, Ga. 30339
404-955-0088

Valuation Counselors Southwestern, Inc.
2000 West Loop South,
Suite 1365
Houston, Tex. 77027
713-877-0200

Valuation Counselors Western, Inc.
2049 Century Park East,
Suite 2530
Los Angeles, Calif. 90067
213-553-1515

Valuation Counselors Property Records, Inc.
230 W. Monroe St.
Chicago, Ill. 60606
312-368-0200

General Systems Company, Inc.
83 Rt. 206, RD #3
Belle Meade, N.J. 08502
201-359-3440

HORWATH & HORWATH INTERNATIONAL

Headquarters: 919 Third Avenue, New York, NY 10022
212-980-3100 Telex: 236501 LNH UR
(Partner and correspondent firms in these countries)

Andorra
Argentina
Australia
Austria
Bahamas
Bahrain
Bhutan
Bolivia
Brazil
Cameroon
Canada
Channel Islands
Chile
Colombia
Costa Rica
Cyprus
Denmark
Dominican Republic
Ecuador
Egypt
El Salvador
Ethiopia
Finland
France
Germany
Greece
Guatemala
Haiti
Hong Kong
Iceland
India
Indonesia
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Kenya
Korea
Kuwait
Luxembourg
Malaysia
Mexico
Monaco
Nepal
Netherlands
New Zealand
Nigeria
Norway
Oman
Panama
Peru
Portugal
Qatar
Saudi Arabia
Singapore
South Africa
Spain
Sweden
Switzerland
Syria
Taiwan
Thailand
Tunisia
United Arab Emirates
United Kingdom
Uruguay
Venezuela
Yemen
Zimbabwe

B5050-10

1984

CALIFORNIA

Lodging

INDUSTRY

Laventhol & Horwath
Certified Public Accountants

1984 Edition

2ND ANNUAL REPORT ON CALIFORNIA HOTEL OPERATIONS

CALIFORNIA LODGING INDUSTRY

2 Comments From Around the State

8 The California Lodging Industry—1984

11 The California Lodging Industry Dollar

25 Bases and Significance of Lodging Statistics

26 Explanation of Terms

26 Analyze Your Operation

© 1984

Laventhol & Horwath
Certified Public Accountants

611 Anton Blvd., Suite 1100
Costa Mesa, Calif. 92626
714-556-4244

3699 Wilshire Blvd.
Los Angeles, Calif. 90010
213-381-5393

2570 El Camino Real, Suite 310
Mountain View, Calif. 94040
415-941-3537

101 West Broadway, Suite 1300
San Diego, Calif. 92101
714-236-1188

50 California St., Suite 2450
San Francisco, Calif. 94111
415-989-0110

$35 per copy

COMMENTS FROM AROUND THE STATE

From the East Bay area

San Francisco's East Bay area is one of the most popular lodging markets in Northern California. Stretching northeast of the city to Concord, southeast to Pleasanton/San Ramon and southwest to Milpitas, it encompasses Contra Costa and Alameda Counties and includes the city of Oakland.

Laventhol & Horwath's recent analysis of lodging demand in Contra Costa County revealed a 1984 year-end area-wide occupancy of 63 percent, with an average daily room rate of approximately $70.

Development of central Contra Costa County has occurred along the Interstate 680 corridor, extending south from Martinez through the cities of Concord, Pleasant Hill, Walnut Creek, Lafayette and Orinda to the rapidly growing areas of Danville and San Ramon.

During the late 1960s and early 1970s, large-scale residential development occurred in central Contra Costa County. The tri-city area experienced rapid and dramatic population growth, accompanied by a substantial expansion of retail outlets to serve the increased population, primarily commuters to San Francisco. At about the same time, the Bay Area Rapid Transit System (BART) was completed. In 1975, the pattern began to shift from residential to office and commercial development. Areas such as Walnut Creek and Concord began to take the shape of "mature cities" with the development of industrial and business parks.

The overall development pattern of central Contra Costa County rests on a solid base of commercial and industrial employment, and involves very large capital investments by major international corporations. These healthy economic trends should enhance the success of future lodging development in the East Bay area.

From Los Angeles County

In 1983, the greater Los Angeles area lodging market experienced an excellent recovery from the recession. First-class hotels in Los Angeles County reported an area-wide average occupancy of 75 percent, up almost 2 percent from 71.7 percent in 1982.

The current hotel construction boom added 2,833 rooms in 1983, representing a 10 percent increase in the area's hotel inventory. Additions scheduled for 1984 will add 4,018 rooms to the inventory, an increase of 14 percent. Despite the large increases in supply, Los Angeles County achieved a strong area-wide occupancy in relation to 1983 national trends. We believe that 1984 performance will be even better with the overall year-end area occupancy projected to be just under 75 percent.

Demand levels increased 6 percent in 1983 and are projected to increase 8 percent in 1984. This healthy growth is expected to continue, supported by several factors including:

- The 1984 Summer Olympics, expected to have had a positive impact on summer tourism to Los Angeles. Media, entertainment, and other forms of commercial travel related to the games resulted in additional lodging demand throughout the year.
- The area's major office markets are experiencing strong absorption. Two significant projects in downtown Los Angeles will add more than five million square feet to the existing office inventory. California Plaza will contain 4.2 million square feet of office space, an art museum, a 450-room deluxe hotel and a retail component. Citicorp Plaza will add 2.5 million square feet of office space and 350,000 square feet of retail space.
- Los Angeles has emerged as a major

Los Angeles County
(New Properties)

Location	Property	Numbers of Rooms	Year of Opening
Arcadia	Granada Royale Arcadia	194	1984
Beverly Hills	L'Ermitage (addition)	12	1984
Century City	Century Plaza (addition)	322	1984
Hollywood	Sun West Hotel	140	1984
La Mirada	Holiday Inn	300	1984
Long Beach	The Breakers	250	1984
Los Angeles	Hotel Bel Air (addition)	24	1984
	Beverly Comstock (addition)	43	1984
	Marriott Warner Center	450	1985
Los Angeles International Airport	Holiday Inn-Crowne Plaza	612	1984
	Granada Royale Hometel	350	1984
Santa Monica	Holiday Inn Bayview (addition)	126	1984
Torrance	Brock Residence Inn	249	1984
	Marriott Hotel	494	1984
Universal City	Sheraton Premiere	518	1984
West Hollywood	Le Valadon	138	1984
	Le Mondrian	240	1984
	Le Bel Age	126	1984
Total		4,468	

embarkation point for the cruise ship industry. Cruise line traffic at the Port of Los Angeles has increased from less than 100,000 passengers in 1979 to more than 900,000 in 1983. This number is projected to increase to 500,000 passengers by 1986. A large percentage of these passengers stay at Los Angeles area hotels before or after their cruise.

Los Angeles area hotels achieved an average daily room rate of $64.85 in 1983, a 6 percent increase over 1982. An overall increase of 7 to 8 percent is predicted for 1984. First-class hotel operators in general did not increase rates substantially during the 1984 Summer Olympics.

During 1983, there were further declines in the numbers of foreign visitors to area tourist attractions and hotels. The strength of the U.S. dollar has discouraged foreign travel to Southern California and encouraged Americans to travel abroad.

Looking ahead to 1985, we do not expect a strong increase in overall lodging demand for the area. The strong growth projected for commercial guest demand will be partially offset by no growth in the tourist segment during 1984.

From the Monterey Peninsula

Major new tourist facilities are planned or proposed for the Monterey Peninsula, especially in the historic City of Monterey. However, this surge of building growth has caused community residents to question how much is too much. For this reason, a temporary moratorium has been placed on lodging development until this question can be answered.

Construction of the following projects was approved for the City of Monterey before the moratorium was passed:

- A $25 million upgrading to deluxe status of the Hyatt Del Monte Hotel, now known as the Hyatt Regency Monterey, completed in summer 1984. This expansion added 170 guest rooms as well as major conference facilities.
- The 350-room Monterey Sheraton, which opened downtown in October 1984.
- The Tin Cannery, a 150,000-square-foot enclosed shopping mall on Cannery Row, scheduled for completion in late 1984.
- The 291-room Monterey Plaza in Cannery Row, scheduled to open in 1985.

In addition, the $40 million Monterey Bay Aquarium, which is scheduled to open in late 1984, is expected to be one of the best in the world and could attract one million visitors a year.

Estimated 1983 year-end occupancy and average daily room rate of first-class properties in the Monterey market area are 72 percent and $80, respectively.

From Orange County

The Orange County lodging industry continued to perform impressively during 1983. First-class lodging facilities reported a county-wide occupancy of 74 percent in 1983, a 2 percent increase over 1982. The average daily rate for these properties increased by more than 4 percent in 1983 to approximately $60. These results can be attributed to the area's strong economy.

Orange County industries continue to support the current lodging market and stimulate interest in new hotel development, particularly in Anaheim and the Newport Beach/Irvine area, the county's two major lodging sectors. Anaheim, in addition to having the popular Disneyland and Knott's Berry Farm tourist attractions, has become a major convention city. With the 1983 expansion of the convention center to a total of 685,000 square feet, delegate counts increased to 806,000 (compared with 625,000 delegates in 1982).

During the past 10 years, the Newport Beach/Irvine area has evolved into a major center of first-class office space, with a high concentration of major corporate headquarters (as well as regional and national offices). The Orange County area in general has absorbed a very significant portion of new office space. Projections indicate that the compounded average annual space allocation rate during the next few years will be a strong 12 to 13 percent. This increase in office supply, coupled with Orange County's tourist attractions and finer qualities associated with beach communities, makes the area desirable for hotel development.

Major hotels that opened or expanded in Orange County in 1983 (heavily concentrated in the Anaheim and Newport Beach/Irvine areas) include a 504-room Marriott near John Wayne Airport in Irvine, and a 300-room expansion of the Anaheim Marriott.

Hotels opening or under construction in the area in 1984 include:

- A 500-room Emerald Hotel in Anaheim.
- A 1,687-room Hilton adjacent to the Anaheim Convention Center.
- A 227-room Ibis Hotel in Anaheim.
- A 460-room Doubletree Inn in the city of Orange, near Anaheim.
- A 476-room Meridien Hotel near John Wayne Airport in Newport Beach.
- A 400-room Ritz Carlton resort in Laguna Niguel.

Growth in lodging demand is expected to continue through 1984, although county-wide occupancy may soften because of the surge of new hotel development in the area.

From Palm Springs

The Palm Springs lodging market area comprises the city of Palm Springs and the desert communities of Cathedral City, Rancho Mirage, Palm Desert, Indian Wells and La Quinta. Palm Springs is still the Coachella Valley's major resort city and is the site of the regional airport. However, the desert communities are showing strong growth and are expanding their influence in the Palm Springs area.

Lodging demand in the Palm Springs area varies seasonally. The peak demand period occurs between mid-December and mid-April, with average occupancy approximately 80 percent. Lodging demand is lowest during the summer months, with average occupancy in the mid-30 percent range. During the intermediate season, demand is strong on weekends and during holiday periods, and decreases during the mid-week. Operators of the eight major first-class hotels and resorts in the area reported an average annual occupancy of 62 percent in 1983, compared with the 1982 average occupancy of 57 percent. This rise in occupancy was due to excellent weather during 1983, increased awareness of Palm Springs as a destination resort area and an improved economy in California and throughout the country in general.

The annual average daily rate for area first-class hotels in 1983 was $94, a $6 increase over 1982. These rates follow a

seasonal pattern. The approximate average rates in 1983 for the peak, intermediate and summer seasons were $115, $84 and $45, respectively.

With the improvement in market-area occupancies and average room rates, the growing perception of the Palm Springs area as a major destination resort and the success of the Marriott Rancho Las Palmas, there has been a high degree of interest in developing new lodging properties in this area. Several opened or are scheduled to open in 1984, including:

- A 162-unit Royce Hotel, a condominium resort at the Cathedral Canyon Country Club which opened in January.
- A 200-suite Granada Royale Hometel in Palm Desert, scheduled for completion in the fall.
- A 225-room Marquis Hotel in downtown Palm Springs, scheduled to open in late 1984.

Other major projects under construction or planned include:

- An 800-room Marriott, currently under construction in Palm Desert.
- A proposed 207-suite Pierre Cardin Hotel at the Desert Fashion Plaza in downtown Palm Springs.
- A proposed 410-room Doubletree Hotel adjacent to the proposed Palm Springs Convention Center.
- A proposed 500-room Hyatt Regency at Ironwood Country Club.
- A proposed 500-room Stouffer Hotel at Mission Hills Country Club.

The continued development of major resort-oriented hotels should stimulate national recognition of the Palm Springs area. In addition, the proposed 80,000-square-foot Palm Springs Convention Center would positively affect the demand for hotel rooms in the market area.

From San Bernardino and Riverside Counties (The Inland Empire)

San Bernardino and Riverside Counties, frequently referred to as the Inland Empire, encompass 27,499 square miles (the largest two-county area in California). Population and economic forecasts for these counties are among the strongest in the state. Much of this growth is expected to be concentrated in the western end of the two-county area, particularly in the cities of Ontario, Riverside and San Bernardino, for the following reasons:

- Close proximity to Los Angeles and Orange Counties, both top employment and population centers.
- Lower land and housing costs and an abundance of developable land compared with Los Angeles and Orange Counties.
- Central location in Southern California.
- Large labor pool.
- Developed infrastructure.

Ontario is expected to be the beneficiary of much of the economic growth in the Inland Empire, spurred by the 688-acre Ontario International Center being developed by Chevron Land and Development Company. Area-wide occupancy levels for Ontario were up approximately nine percentage points in 1983 compared with 1982 levels, while average room rates increased approximately 4 percent for the same period. An increase in occupancy levels of another seven percentage points and a modest increase in average rates are projected for 1984.

Hotel development in Ontario continues near Ontario International Airport and Ontario International Center including a 110-room Quality Inn, which opened recently, and a 112-room addition to the Red Lion with additional meeting space presently under construction. Other hotels proposed include a 319-room Hilton, a 174-room Doubletree Compri, a 144-room Brock Residence Inn and a 120-room Lexington Inn.

In San Bernardino, hotel operators report that occupancy levels in the first six months of 1984 exceeded those of 1983. However, occupancies for 1983 were at their lowest levels in recent history. The national economic recession combined with additions to the lodging supply during 1982 and 1983 continued to affect area-wide occupancy levels. New lodging facilities in San Bernardino include:

- A 153-room La Quinta Motor Inn, which opened in May 1983.
- A 243-room Ramada Inn, adjacent to the convention center in downtown San Bernardino, under construction and scheduled to open by January 1985.

In addition, a 255-acre Park Center mixed-use development at the Tri-City Airport is proposed to include a Sheraton Hotel, a regional shopping center with major upscale tenants and commercial and industrial space.

During 1983, the lodging industry in Riverside recovered from 1982 recessionary levels, returning to 1981 occupancy levels. This trend is expected to continue. Average rates also increased 7 percent in 1983 compared with 1982 levels. A number of economy lodging facilities opened during 1983 in the La Sierra area of Riverside, near State Highway 91. Other additions to the Riverside lodging supply include a 95-room addition to the 127-room Holiday Inn Riverside, proposed to begin construction during 1984 and open by 1985, and a 276-room Sheraton adjacent to the Raincross Square Convention Center downtown, under construction and scheduled to open in August 1985.

Another emerging sector of the Inland Empire is the Rancho California/Temecula Valley area of southwestern Riverside County. Rancho California is a 97,500-acre planned commercial, light industrial and residential community being developed by KACOR, a real estate subsidiary of Kaiser Aluminum. Recent hotel development includes a small Best Western and an independent property, which increased the room supply by 66 rooms during 1983. Hotel development is expected to continue in this community during the next five years.

From San Diego

The San Diego lodging industry finished 1983 with a year-to-date occupancy of 75.7 percent, up 3.3 points from 1982. The average room rate for the year was $59.58, a 7.3 percent increase over the 1982 year-end figure of $55.53.

San Diego City and County continue to attract significant interest in lodging development for the following reasons:

- Projected positive growth forecasts for the city and county.
- Desirability of the area for destination tourists and group-meeting guests.
- Projected growth of the commercial base of demand.
- Highly successful downtown redevelopment efforts.

In addition, San Diego residents passed a referendum that would allow public funds to be used to develop a long-awaited convention center. The center would contain 250,000 square feet of exhibit space and 100,000 square feet of meeting and banquet space. Construction of the center is scheduled to begin in

San Diego County
(Occupancy and Average Rate)

Year	County-wide Occupancy	County-wide Average Daily Room Rate	Percent Change in Average Daily Room Rate
1981	73.4%	$50.06	N/A
1982	72.4	55.53	10.9%
1983	75.7	59.58	7.3
1984*	78.8	61.87	8.1**

*Year-to-date May 1984 78.8% compared with 74.7% 1982 year-to-date
Year-to-date May 1984 $61.87 compared with $57.22 1982 year-to-date.
**Year-to-date 1984 percentage increase over year-to-date 1983.

spring 1985 and to be completed by 1987. In anticipation of the center's opening, the San Diego Convention and Visitors Bureau has undertaken a major sales and marketing campaign to sell San Diego to the major convention markets.

The *San Diego Trend of Business in the Lodging Industry*, published monthly by L&H, reveals operating characteristics of San Diego County lodging facilities, as shown above. Year-to-date information as of May 1984 reveals an upward trend in occupancy, with an increase of 5.5 percent over the same year-to-date period last year. Accompanying the rise in occupancy is the increase in room sales per occupied room, up 7.9 percent to a county-wide average of $61.87, compared with last year's figure of $57.22.

The short-term outlook is for continued increases in area-wide occupancy and accelerated increases in average daily room rates. However, because of projected increases in the room supply, there is concern about operating levels in the mid-1980s. The table below lists some of the first-class hotel projects recently completed and expected to be completed during the next two years.

Together with the hotels identified above, there are approximately 26,000 guest rooms planned, proposed or rumored to enter the San Diego market area.

San Diego continues to develop its convention and tourism-based industry, promoting the area's coastal orientation and pleasant environmental characteristics. The development of the convention center and major hotel projects downtown should enable San Diego to quickly and effectively compete with other major destination tourist and convention cities.

From San Francisco

The San Francisco lodging market achieved a 1983 year-end occupancy level of 70 percent, about the same as 1982 results. Most speculators predict, however, that the real trend to watch will be the upsurge in tourism to the city expected to have been generated by major events such as the Democratic National Convention, the 1984 Olympic Games and the return of the cable cars.

Commercial office space construction has continued steadily, visible in developments in the South of Market area near the George M. Moscone Convention Center, as well as along the Embarcadero.

Hotel development has kept pace with these healthy indicators. Approximately 1,300 new rooms will open in the city by year-end 1985. As a result, it is almost certain that area-wide occupancy will decrease as increases in demand are offset by increases in the number of available guest rooms.

San Diego County
(First-Class Hotel Projects)

Project	Location	Number of Rooms	Status
Inter-Continental	Downtown	681	Opened April 1984
Radisson	Mission Valley	256	Opened June 1984
Omni International	Downtown	450	Seeking financing
Best Western	Downtown	123	Site work begun
U.S. Grant	Downtown	258	Under renovation
ZRD	Downtown	350	Being planned
Ramada Renaissance	Mission Bay	650	Seeking financing
Marriott	La Jolla	350	Under construction
Total		3,118	

A 126-room Campton Place Hotel opened in October 1983. Formerly known as the Drake Wilshire Hotel, it was renovated by the Ayala Hotel Corporation. Operators of this hotel hope to achieve the city's highest room rate, an objective that will be of great interest to other San Francisco hotel operators. Meridien Hotels entered the West Coast market, also in October 1983, with the opening of the Hotel Meridien. This property will be the hotel nearest to the convention center until the completion of the Marriott Marquis in 1988. In addition, a 1,015-room Ramada Renaissance hotel opened in fall 1984.

Along with the new luxury hotels in the San Francisco market, the development of "boutique hotels" continues. Properties such as the Bedford Hotel and the Vintage Court, developed by Bill Kimpton, are smaller than luxury hotels but offer convenient locations and an attractive decor at somewhat lower rates.

Market segmentation remained about the same between 1982 and 1983, fairly evenly distributed among business travelers, conventioneers and tourists. The San Francisco lodging market experienced an economically stable year in 1983, and the outlook for 1984 is bright.

From the San Francisco Airport area

The San Francisco lodging market experienced a 1.2 percent decrease in area-wide occupancy in 1983, compared with 1982 levels. However, even with a drop in occupancy, trends for this market area historically have been better than those for lodging facilities in the center city, suburban, highway and resort categories.

Room sales, as well as food and beverage sales per occupied room, increased compared with 1982 results. Food costs decreased, while beverage costs remained about the same.

The San Francisco Airport area has always been a strong lodging market. The new Days Inn and Holiday Inn-Crowne Plaza, which both opened in 1983, were easily absorbed with little if any impact on occupancy levels. In fact, a 60-room expansion to the Days Inn was completed in June 1984.

Plans for new hotel development are

San Francisco Airport
(Proposed Properties)

Project	Number of Rooms	Status	Projected Opening Date
Ramada (expansion)	114	Under construction	Late 1985
Airport Plaza (expansion)	229	Under construction	October 1984
Marriott	700	Under construction	Mid-1985
Granada Royale	337	Under construction	Mid-1986

very aggressive. As the table above shows, more than 1,300 rooms are scheduled to be added to the area's supply.

Increased office development in business parks near the San Francisco International Airport, including the Gateway Center and Oyster Point in south San Francisco, and Anza Park in Burlingame, should complement the substantial increases in lodging supply planned for the near future.

The proposed Granada Royale will be one of the first hotels to introduce the all-suite concept to the San Francisco Airport market area. This concept, which features larger accommodations, typically with separate sleeping and living areas, has been steadily increasing in popularity as new facilities have been constructed throughout the United States. The average length of stay tends to be a little longer at all-suite hotels because they offer an attractive alternative to people relocating to an area, as well as to travelers attending training sessions. Therefore, even though supply is increasing at a fast pace in the San Francisco Airport area, the introduction of new concepts with diversified market orientations should actually create varying levels of demand.

From the Silicon Valley

The "Silicon Valley" is a high-technology industrial center located south of San Francisco. Its boundaries have expanded beyond the cities of Santa Clara and San Jose to include the communities of Milpitas, Morgan Hill and Gilroy. The name Silicon Valley is attributable to the number of major high-tech companies that have relocated to the area because of the available land at attractive costs.

The lodging industry has kept pace with this fast-growing area. Year-end occupancy for the Silicon Valley market area in 1983 was 75 percent, with an average daily room rate of approximately $65. These results parallel those of 1982, a positive indicator considering the additions to the supply this year. Historically, the Silicon Valley area lodging industry has been extremely strong, and this trend is expected to continue during the next several years.

Area lodging demand for 1983 was provided by the following major market segments:

Market Segment	Percent of Total Demand
Commercial Travelers	80%
Meetings/Group	16
Tourists and Others	4
Total	100%

The number of commerical travelers increased 7 percent from 1982, while the meeting and tourist segments decreased 2 percent and 5 percent, respectively.

Several new projects are proposed for the area, as shown in the table below. Because of decreasing availability of land in the Silicon Valley, fairly aggressive hotel development is expected in Pleasanton/San Ramon and Morgan Hill/Gilroy.

Silicon Valley
(New Projects)

Property	Location	Estimated Number of Rooms	Estimated Opening Date
Brock Residence Suites	Sunnyvale	248	March 1986
	Mountain View	112	March 1986
Holiday Inn Embassy Suites	Santa Clara	258	April 1985
Doubletree	Santa Clara	550	July 1986
Fairmont Hotel	San Jose	550	January 1988
Ramada Inn	San Jose	200	January 1986

From Ventura and Santa Barbara Counties

Overall, hotel occupancy levels in Ventura and Santa Barbara Counties remained healthy at 72 percent in 1983. However, this was a three-point decline from 1982 levels. A portion of the decline is attributed to the decrease in oil-related business and the inclement weather in early 1983. Occupancy levels are projected to remain the same or increase slightly during 1984. Tourism to the area increased slightly as a result of the rebounding economy with Santa Barbara the strongest submarket, and Westlake/Thousand Oaks/Camarillo the weakest. Area-wide average room rates ranged between low $30 figures in Lompoc to nearly $100 at Santa Barbara resort properties. Average daily rate increases are expected to be between 4 and 6 percent for 1984.

Increases to supply, ranging from bed-and-breakfast inns to full-service hotels, occurred in most of the submarkets during 1983. Several new properties are scheduled to open in 1984, as shown in the table on the following page. Future hotel development is expected to continue at a moderate pace during the next few years. Several hotels are proposed for the market area. The coastal areas of Ventura and Santa Barbara Counties are popular vacation destinations, but development may be hindered by the California Coastal Commission's attempt to preserve the natural coastline.

Tourism will continue to generate demand, as Ventura and Santa Barbara Counties are convenient stopovers between Northern and Southern California and also contain some destination resorts. Growth in business-related demand is anticipated, especially in Southern Ventura County (Thousand Oaks and Camarillo), as industry and commercial developers move north of Los Angeles where development costs are lower and the population base is increasing. Low-rise office complexes currently are under construction in the southern area of the county.

Ventura and Santa Barbara Counties
(New Properties)

Location	Property	Estimated Number of Rooms	Opening (or Projected Opening) Date
Camarillo	Camarillo Country Inn	100	February 1984
Carpinteria	Carpinteria Motor Inn	152	Late 1984
Carpinteria	California 6	138	Mid-1984
Oxnard	Granada Royale	250	Mid-1985
Santa Barbara	Adobe Motel	17	June 1984
Santa Barbara	Harbor View (addition)	30	Late 1984
Santa Barbara	Turnpike Lodge (addition)	30	July 1984
Solvang	Petersen's Village Inn	40	June 1984
Solvang	Royal Copenhagen (addition)	25	June 1984
Solvang	Sheraton Royal Scandinavian Inn	135	June 1984
Solvang	Tivoli Square Inn	24	August 1984
Thousand Oaks	Holiday Inn (addition)	45	June 1984
Ventura	Belle Maggiore Inn	19	July 1984
Ventura	Clock Towers Square	50	Late 1984
Ventura	Country Inn of Ventura	120	July 1984
Ventura	Harbor Town	240	Mid-1984
Ventura	Pacific Inn	35	February 1984
Westlake	Westlake Plaza	243	October 1983
Total		1,693	

Continued overall economic health is predicted for lodging properties in Ventura and Santa Barbara Counties.

From the Wine Country

California's Wine Country comprises the Sonoma and Napa Valleys. Travelers from all over the world visit this region to witness the harvest time with its spectacular fall colors and to visit the abundant tasting rooms at various area wineries.

Visitors find a wide variety of lodging facilities in the Wine Country, ranging from hotels and motels to the increasingly popular bed-and-breakfast inns. All of the Southern Sonoma Valley's major lodging properties are located in Sonoma. The area's most famous facility is the Sonoma Mission Inn. With excellent facilities, first-class amenities and rates that begin at $100 per night, it attracts the less price-sensitive Wine Country visitors. Bed-and-breakfast inns in the Southern Valley account for only 12 percent of the total room supply.

The city of Santa Rosa offers the largest number of rooms in Northern Sonoma Valley. This district has more rooms than the Napa and Southern Valley areas combined. Futhermore, almost all of these rooms are low or moderately priced.

Laventhol & Horwath's recent analysis of full-service lodging facilities in Napa Valley determined that the 1983 area-wide occupancy level was 70 percent, with an average daily room rate of $55.50. Napa Valley's bed-and-breakfast inns constitute almost one-fourth of this area's room supply. As a group, these inns receive a higher rate than most properties in Santa Rosa.

Moderate growth is anticipated in the numbers of both tourist and commercial visitors to the Wine Country. This growth should provide a solid base of demand for the approximately 1,200 lodging rooms planned for the Wine Country market area during the next few years. Projects currently under construction include a 250-room Round Barn Inn in Santa Rosa, scheduled to open in late 1984, and the 40-room Healdsburg Plaza Inn in Healdsburg, scheduled to open in 1985. The plans for lodging development, along with the trend among area cities to focus their energies on promoting themselves as quality tourist destinations, suggest a promising outlook for the future of the area lodging industry.

THE CALIFORNIA LODGING INDUSTRY—1984

by Marsha J. Cassidy
Research and Development Division

Introduction

This is Laventhol & Horwath's second annual in-depth report on the California lodging industry. The information contained in this study was derived from contributions to the 1984 edition of L&H's *U.S. Lodging Industry* report.

For the first time, this year's study presents an analysis of the data by selected breakdowns. Information is shown by property size, occupancy rate and location type. This information can be useful in comparing the operating performance of individual establishments with that of comparable properties.

The figures in this report are intended to be used as guidelines, not standards or goals. They are not an attempt by L&H to set or conform prices or operating ratios for California's lodging industry.

L&H compiles monthly statistics for the Long Beach, San Diego and San Francisco airport lodging sectors. To receive complimentary copies of these *Trend* reports, write to L&H's Los Angeles, San Diego or San Francisco office (addresses on the contents page).

Bases of statistics

The statistics presented in this report have been computed on the most common bases used to analyze lodging operating results: amounts per available room and ratios to total sales. Readers not familiar with L&H reports are advised to read "Bases and Significance of Hotel Statistics" (Chapter 28 in *Hotel Accounting*, fourth revised edition, Ronald Press Division of John Wiley & Sons, 1978). Excerpts are included in this report on page 26.

Most figures in this study are presented as medians and upper and lower quartiles and do not necessarily add to the totals shown. Each line item has been analyzed separately and the medians are based on the information submitted for that line item only, since all establishments did not provide data for every line. We also use the arithmetic or weighted mean where appropriate. For example, the figures in "The California Lodging Industry Dollar" (page 11) are based on weighted means to express absolute values rather than the relative position of the operating results.

Profile of contributors

Exhibit 1 defines the typical contributor to this study based on various measures of central tendency such as the mean, median and mode. As the exhibit shows, the typical contributor is fairly representative of the large number of chain-affiliated, tourist-oriented properties in California that were built in the last decade.

Exhibit 1
General Profile of Typical Contributor
Based on Various Measures of Central Tendency

Criteria	Category of Typical Contributor
Age	Built Between 1970 and 1980
Size	150-299 Rooms
Occupancy	70%-79%
Average Rate	Over $55
Sales Volume	Between $5,000,000 and $9,999,999
Restaurant Operation	Operated a restaurant in which the volume of food and beverage sales was greater than 50% of room sales
Other Management	Chain affiliated; reported net income before income tax in 1983
Market	Tourist
Location	Urban

The highlights of this year's study, again using the various measures of central tendency, are shown in Exhibit 2. Occupancies increased 1.7 percent in 1983 compared with the previous year's figures. Room rates declined slightly, while payroll and related expenses increased 9.5 percent, affecting bottom line performance. Consequently, net income before income taxes decreased 19.4 percent on a per room basis.

Market data

Exhibit 3 shows information on source of business, market composition, the percentage of advance reservations, and the source and composition of advance reservations. During 1983, the lodging market for California properties consisted primarily of domestic tourists who made advance reservations. For this group of properties, 90.8 percent of room night demand was generated by domestic sources, while 9.2 percent stemmed from foreign sources. The decline in foreign demand is partially attributable to the continued relative strength of the U.S. dollar against most major foreign currencies, prohibiting travel to the U.S. Tourists represented more than half of all guests in California hotels during 1983, followed by businessmen and conference participants.

The information provided in Exhibit 3 may be useful in determining the customer mix of specific segments of the California lodging industry. An understanding of their customer base can help operators to anticipate and meet the needs of their guests.

Exhibit 2
Highlights*

- Total revenue increased 3.8 percent on a per room basis to $16,141.
- Room occupancy increased 1.7 percent to 77.8 percent compared with 76.5 percent in 1982.
- The average daily rate per occupied room was $56.86 compared with $57.06 in 1982.
- Payroll and related expenses per room increased 9.5 percent from $6,909 to $7,567.
- Income before income taxes decreased 19.4 percent on a per room basis to $3,196.

*Based on medians.

Exhibit 3
Market Data*

	1983	1982
Source of Business		
Domestic	90.8%	88.5%
Foreign	9.2	11.5
Total	100.0%	100.0%
Percentage of Repeat Business	41.9%	42.0%
Composition of Market		
Government Officials	4.0%	1.7%
Businessmen	21.0	20.6
Tourists	52.2	52.2
Conference Participants	19.8	19.9
Other	3.0	5.6
Total	100.0%	100.0%
Percentage of Advance Reservations	80.1%	78.3%
Composition of Advance Reservations		
Direct	51.2%	36.4%
Reservation Systems	29.2	37.7
Travel Agents & Tour Operators	11.3	16.6
Other	8.3	9.3
Total	100.0%	100.0%

*Based on those supplying detail. All figures are means.

The California lodging industry dollar

Chart 1 presents the source and distribution of the California lodging industry dollar in 1983 compared with the previous year. As illustrated, the portion of revenue generated by each source during 1983 mirrored 1982 results with little significant variation.

Minor variations were reported in the allocation of revenue between 1982 and 1983. Slight increases in undistributed operating expenses were offset by declines in payroll and related expenses and rent. This shift in the allocation of resources resulted in a 1.1 percent increase in net income before income taxes, from 9.1 percent in 1982 to 9.2 percent in 1983.

Occupancy and average rate

The three most commonly used measures of trends in the lodging industry, the percentages of occupancy and double occupancy and average room rate, are presented in Exhibit 4 with other selected criteria. Occupancies and room rates were generally higher in 1983 than in 1982, reflecting the improved performance of California properties. The productivity index, which measures total sales per dollar of payroll and related expenses, was $3.02, down 4.1 percent compared with last year's results. Management must recognize the need to control payroll costs and to institute the appropriate steps to increase operational efficiency.

Exhibit 5 presents occupancy percentages by selected criteria such as property size and location. Properties with more than 300 rooms and those located in downtown areas reported the lowest occupancy rates of all segments analyzed. A possible cause for these results may be a decline in room night demand.

Exhibit 4
Occupancy and Average Rate

	1983			1982		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Average Room Rate	$46.79	$56.86	$73.31	$46.18	$57.06	$69.79
Average Room Rate (Per Guest)	$22.55	$43.29	$49.47	$33.12	$38.08	$46.81
Occupancy	69.1%	77.8%	84.0%	69.8%	76.5%	82.4%
Double Occupancy	35.2%	55.8%	97.6%	30.7%	43.4%	59.8%
Productivity Index	2.78	3.02	3.44	2.78	3.15	3.50

Exhibit 5
Occupancy—By Selected Criteria*

	Percentage of Occupancy	Percentage of Double Occupancy	Average Room Rate
Size			
Under 150 Rooms	78.2%	106.1%	$45.37
150–299 Rooms	78.5	35.4	53.34
Over 300 Rooms	74.9	47.9	73.16
Location			
Center City	68.7%	45.6%	$70.10
Airport	79.9	36.2	55.59
Suburban	81.2	97.6	47.89
Highway	13.8	**	48.82
Resort	73.0	**	87.41

*All figures are medians.
**Insufficient response.

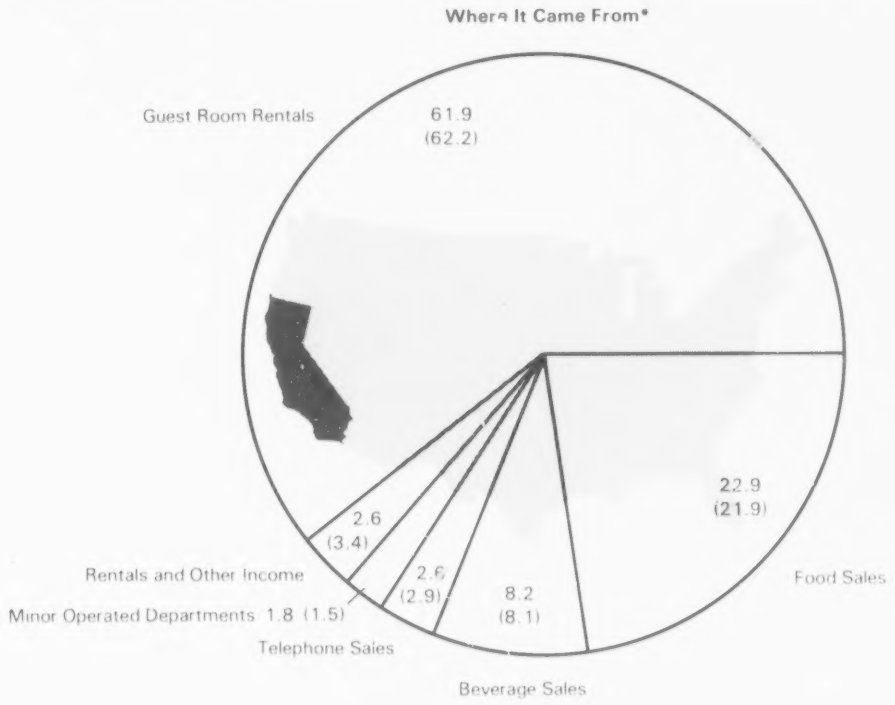


Chart 1: The California Lodging Industry Dollar 1983

*Based on the weighted mean.
1982 amounts in parentheses.

Rooms department

Rooms department income and expenses are presented in Exhibit 6 as both amounts per room and ratios to total sales for the entire sample and for selected categories. With increased occupancy levels and room rates, median net revenue rose from $15,936 in 1982 to $16,141 in 1983, resulting in a significant jump in the median net departmental income.

Exhibit 6
Rooms Department Income and Expenses
Median Amounts Per Room and Ratios to Sales*

		Size		
	All Establishments	Under 150 Rooms	150–299 Rooms	Over 300 Rooms
Revenue				
Room Sales	$15,689	$12,144	$15,615	$19,982
Allowances	90	110	97	89
Net Revenue	16,141	12,395	15,361	20,161
Departmental Expenses				
Payroll & Related Expenses	2,826	2,085	2,345	3,486
Commissions	194	79	163	338
Contract Cleaning	22	6	16	39
Linen	162	121	139	182
Laundry & Dry Cleaning	284	46	139	399
Operating Supplies	264	215	253	324
Other Operating Expenses	100	80	90	167
Reservation Expense	150	42	142	150
Uniforms	35	29	26	50
Total Expense	4,117	2,931	3,253	4,973
Net Departmental Income	12,539	10,089	11,934	15,379
Ratio to Total Sales				
Net Revenue	65.8%	75.0%	68.9%	61.9%
Payroll & Related Expenses	11.9	12.6	11.9	11.0
Net Departmental Income	50.1	58.3	53.0	44.2

*All figures are medians and do not necessarily add to totals shown.

Exhibit 7
Rooms Department Income and Expenses Ratios to Room Sales*

	Ratios to Room Sales		
	Lower Quartile	Median	Upper Quartile
Revenue			
Room Sales	100.0%	100.0%	100.0%
Allowances	0.4	0.6	0.8
Net Revenue	100.0	100.0	100.0
Departmental Expenses			
Payroll & Related Expenses	15.3	17.1	19.5
Commissions	0.9	1.2	1.8
Contract Cleaning	0.1	0.2	0.2
Linen	0.6	0.3	1.3
Laundry & Dry Cleaning	0.4	1.4	2.1
Operating Supplies	1.4	1.8	2.3
Other Operating Expenses	0.5	0.7	1.2
Reservation Expense	0.4	0.7	1.5
Uniforms	0.1	0.2	0.3
Total Expense	22.3	24.6	27.2
Net Departmental Income	72.8	75.4	77.7

*All figures are medians and do not necessarily add to totals shown.

Exhibit 7 presents rooms department income and expenses as ratios to room sales using medians and quartiles. Generally, most of the revenue and expense items listed are very close to the levels reported for the previous year.

Exhibit 8 shows the composition of sales for selected breakdowns based on the arithmetic mean to establish absolute values. As expected, in every category the largest portion of revenue was derived from the rooms department, followed by food and beverage departmental sales. The larger properties generated substantially higher levels of food and beverage sales than did those properties analyzed by location.

Exhibit 8
Composition of Sales*

		Size			Location				
	All Establishments	Under 150 Rooms	150-299 Rooms	Over 300 Rooms	Center City	Airport	Suburban	Highway	Resort
Rooms	67.0	72.2	67.8	63.3	68.6	74.3	77.3	52.9	66.7
Food	20.7	18.4	19.6	23.3	19.1	15.3	13.5	32.8	21.5
Beverage	7.3	5.7	7.8	7.7	5.7	4.5	4.1	10.0	8.3
Telephone	2.8	2.5	3.1	2.7	3.6	3.7	3.1	1.6	2.4
Minor Operated Departments	0.9	0.3	0.4	1.6	1.5	0.2	0.6	1.7	0.2
Rentals & Other Income	1.3	0.9	1.3	1.4	1.5	2.0	1.4	1.0	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

*Based on arithmetic mean.

Restaurant operations

An analysis of the food and beverage department is presented in Exhibits 9 and 10. A two-year comparison of the respective ratios to food and beverage sales for selected groups is shown in Exhibit 9; statistics of sales per room and per seat, average receipt per guest and other measurements are presented in Exhibit 10.

Exhibit 9 shows that for the entire sample, departmental income dropped 20 percent from 18.5 percent in 1982 to 14.8 percent in 1983. This figure falls below the 25 percent of total sales that typically is used in the industry as a benchmark of whether the department is producing enough earnings to cover its fair share of the overhead costs of operating the property.

Exhibit 9
Restaurant Operations—By Selected Criteria*

	Median Ratios to Total Food and Beverage Sales	
	1983	1982
Sales		
Food	74.8	74.6
Beverage	25.2	25.4
Total	100.0%	100.0%
Cost of Sales		
Cost of Food Sold	31.8	31.6
Cost of Beverages Sold	20.3	20.1
Total Cost of Sales	27.8	28.8
Gross Profit	72.2	71.2
Other Income	5.1	5.2
Total	75.0	76.1
Departmental Expenses		
Payroll & Related Expenses	46.6	47.1
China, Glassware, Silver & Linen	1.6	2.0
Contract Cleaning	0.1	1.4
Kitchen Fuel	0.3	0.3
Laundry & Dry Cleaning	1.2	0.4
Licenses	0.1	1.1
Music & Entertainment	2.1	0.1
Operating Supplies	2.6	2.3
Other Operating Expenses	1.1	0.7
Uniforms	0.4	0.4
All Other Expenses	1.6	1.2
Total	57.9	57.8
Departmental Income	14.8	18.5

*All figures are medians and do not necessarily add to totals shown.

Exhibit 10
Food and Beverage Statistics—By Selected Criteria*

	All Establishments	Size: Under 150 Rooms	Size: 150–299 Rooms	Size: Over 300 Rooms
Food Sales — By Facility				
Amount Per Available Room				
Dining Room	$3,842	**	$3,492	$3,868
Room Service	661	**	370	741
Banquet	3,192	4,420	3,156	3,118
Bar/Lounge	50	**	**	**
Total	$4,626	$2,988	$4,473	$7,269
Ratio to Total Food Sales				
Dining Room	50.6%	85.4%	49.6%	49.7%
Room Service	8.1	**	4.2	9.0
Banquet	41.4	14.6	39.4	43.2
Bar/Lounge	0.7	**	2.3	**
Amount Per Seat				
Dining Room	$4,983	**	**	$6,151
Banquet	1,079	**	**	1,014
Bar/Lounge	**	**	**	**
Total	$1,580	**	**	$1,556
Average Check				
Dining Room	$ 6.56	**	$ 6.56	$ 6.52
Room Service	7.09	**	7.21	7.06
Banquet	12.77	**	16.18	12.77
Total	$ 8.74	$ 6.40	$ 8.32	$ 9.01
Covers Served Per Seat				
Dining Room	$ 758	**	**	$ 926
Banquet	90	**	**	84
Room Service Sales				
Per Occupied Room				
Food	$ 2.23	**	$ 1.41	$ 2.32
Beverage	0.43	**	0.28	0.57
Total	$ 2.65	**	$ 1.67	$ 3.02
Per Guest				
Food	$ 1.45	**	**	$ 1.71
Beverage	0.22	**	**	0.46
Total	$ 1.68	**	**	$ 2.16

*All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

(Continued on next page)

Exhibit 10 presents an extensive analysis of the key performance measures relating to the food and beverage departments. Sales per room, sales per seat, average check and similar statistics are provided for all establishments by size. This information can be useful in determining the varying levels of food and beverage operations conducted by the various industry segments. For example, as the size of the property increases, food and beverage sales per room and the average check also increase.

Exhibit 10
Food and Beverage Statistics—By Selected Criteria* (continued)

	All Establishments	Size: Under 150 Rooms	Size: 150–299 Rooms	Size: Over 300 Rooms
Beverage Sales — By Facility				
Amount Per Available Room				
Dining Room	$ 566	$1,240	$ 605	$ 450
Room Service	123	**	67	174
Banquet	749	747	956	725
Bar/Lounge	1,024	1,073	1,494	954
Total	$1,945	$1,540	$1,594	$2,376
Ratio to Beverage Sales				
Dining Room	15.9%	11.6%	20.5%	15.5%
Room Service	5.5	**	1.8	5.8
Banquet	28.5	13.4	28.5	34.8
Bar/Lounge	46.4	75.0	53.5	42.8
Ratio to Food Sales				
Dining Room	11.7%	4.8%	18.0%	11.7%
Room Service	23.1	**	15.5	26.8
Banquet	23.9	32.4	24.8	23.4
Total (Including Bar/Lounge)	33.8%	30.4%	36.7%	32.7%
Amount Per Seat				
Dining Room	$ 534	**	**	$ 542
Banquet	258	**	**	258
Bar/Lounge	3,656	**	**	3,743
Total	$ 489	**	**	$ 509

*All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

Minor operated departments

As Exhibit 11 shows, the majority of California operators have been slow to institute profit-making procedures in their minor operating departments. In fact, most operators throughout the U.S. report fewer profits in these departments than do their European counterparts.

Exhibit 11
Minor Operated Departments and Other Income
Median Amounts Per Room and Ratios to Sales*

	All Establishments	Size: Under 150 Rooms	Size: 150-299 Rooms	Size: Over 300 Rooms
Telephone				
Sales				
Cost of Sales	$708	$ 447	$ 699	$ 765
Cost of Calls	483	388	488	532
Equipment Rental	90	43	63	122
Total	$596	$ 445	$ 536	$ 658
Payroll & Related Expenses	221	**	182	226
All Other Expenses	24	26	27	22
Total Costs & Expenses	$751	$ 451	$ 686	$ 891
Net Departmental Income or (Loss)	$ (25)	$ 0	$ 9	$(140)
Ratio to Total Sales				
Sales	2.8%	2.6%	3.0%	2.7%
Cost of Sales	2.2	2.5	2.2	2.0
Payroll & Related Expenses	0.7	0.5	0.3	0.7
Minor Operated Departments				
Sales	$125	$ 74	$ 98	$ 333
Cost of Sales	156	167	156	97
Payroll & Related Expenses	133	141	117	155
Other Expenses	11	3	9	16
Total Costs & Expenses	$339	$ 341	$ 401	$ 217
Net Departmental Income	$ (53)	$(261)	$(299)	$ 63
Ratio to Total Sales				
Sales	0.6%	0.5%	0.4%	1.0%
Cost of Sales	0.5	0.8	0.8	0.3
Payroll & Related Expenses	0.6	0.7	0.6	0.6
Rentals & Other Income				
Space Rentals	$119	$ 33	$ 63	$ 255
Concessions	70	88	52	70
Commissions	19	10	25	18
Other	32	17	28	42
Total Rentals & Other Income	$207	$ 48	$ 115	$ 351
Ratio to Total Sales	0.7%	0.3%	0.5%	1.3%

*Based on those supplying detail. All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

Staffing levels and employee productivity

Exhibit 12 presents an analysis of the available information on staffing levels per 100 available rooms and per 100 occupied rooms, and sales per employee. These figures are based on the average number reported by establishments listing employees in each department and are intended as departmental staffing guidelines. Median total sales per employee declined 9.8 percent in 1983 compared with the previous year.

Exhibit 12
Staffing Levels and Employee Productivity— All Establishments*

	Number of Employees Per 100 Available Rooms			Number of Employees Per 100 Occupied Rooms		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Staffing Levels (Full-Time Equivalent Employees)						
Rooms	14.9	20.3	30.5	17.4	26.3	36.5
Food & Beverage	19.7	41.3	52.0	30.5	61.7	67.5
Telephone	0.8	1.8	2.5	1.2	2.5	2.9
Minor Operated Departments	0.3	1.5	4.0	0.5	1.8	5.3
Administrative & General	2.2	3.9	6.9	3.1	5.4	8.3
Marketing—Sales	1.0	1.9	2.6	1.8	2.5	2.8
Marketing—Other	**	**	**	**	**	**
Property Operation & Maintenance	2.5	3.0	4.3	3.2	3.9	6.1
Personnel	0.3	0.4	0.7	0.5	0.6	1.2
House Laundry	**	**	**	**	**	**
Other	**	**	**	**	**	**
Total Employment—Full-Time Equivalent Employees	40.0	59.8	88.3	50.3	73.2	121.4
Employee Productivity—Sales Per Full-Time Employee						
Rooms	$53,845	$76,413	$102,678			
Food & Beverage	24,825	30,843	49,605			
Telephone	35,279	60,494	88,532			
Minor Departments	13,134	30,337	47,540			
Total Sales Per Employee*	$40,083	$51,576	$66,746			

*Based on those supplying detail. All figures are medians or quartiles and do not necessarily add to totals shown.
**Insufficient response.

Exhibit 13
Payroll and Related Expenses—Cost Per Available Room*

	All Establishments	Size		
		Under 150 Rooms	150-299 Rooms	Over 300 Rooms
Rooms	$2,806	$2,085	$2,345	$ 3,516
Food & Beverage	3,141	2,236	2,695	4,449
Telephone	219	**	182	229
Minor Operated Departments	125	141	117	150
Administrative & General	1,048	583	766	1,355
Marketing	381	134	289	440
Property Operation & Maintenance	518	422	419	776
House Laundry	371	50	443	379
Total Cost Per Available Room	$7,567	$5,026	$6,755	$10,873

*All figures are medians or quartiles and do not necessarily add to totals shown.
**Insufficient response.

Exhibit 14
Payroll and Related Expenses—Cost Per Occupied Room Per Day*

	All Establishments	Occupancy			
		Under 60%	60-69%	70-79%	80% & Over
Rooms	$10.11	$ 9.29	$13.31	$ 8.91	$10.74
Food & Beverage	12.27	8.27	16.74	10.48	12.01
Telephone	0.76	0.88	0.99	0.77	0.68
Minor Operated Departments	0.52	0.42	0.56	0.52	0.45
Administrative & General	3.78	2.66	4.61	3.95	3.66
Marketing	1.42	.42	1.94	1.53	1.21
Property Operation & Maintenance	2.00	1.45	4.53	2.00	1.51
House Laundry	0.00	0.00	0.00	0.00	0.00
Total Cost Per Occupied Room Per Day	$27.35	$21.18	$42.08	$25.40	$29.08

*All figures are medians or quartiles and do not necessarily add to totals shown.

Payroll and related expenses

Departmental payroll and related expenses as costs per available room are analyzed in Exhibit 13. Because a majority of hotel employees work in the rooms and food and beverage departments, it is not surprising that the bulk of the payroll and related expenses are allocated to those departments.

Exhibit 14 presents departmental payroll and other expenses per occupied room per day for the entire sample and by hotel occupancy levels. Payroll expenses per occupied room per day generally were slightly above the previous year's results. Hotels with high occupancy levels controlled employee productivity more effectively, and thereby reduced costs, compared with hotels experiencing low occupancy.

Undistributed operating expenses

Exhibit 15 displays undistributed operating expenses analyzed by amounts per room, ratios to room sales and ratios to total sales. As the exhibit shows, the portion of revenue allocated to covering undistributed operating expenses varies based on property size. The percentage of total sales allocated to energy expenses seems to decline as the size of the property increases, while the percentage allocated to marketing appears to increase for the larger properties.

Energy expenses as amounts per room and costs per occupied room per day are presented in Exhibit 16. Median total energy expenses for participating California properties were $961 per available room in 1983, up 5.5 percent from 1982 and considerably below the $998 per room reported by their counterparts throughout the U.S. Median total energy costs per occupied room were approximately the same as year-earlier results.

Fixed charges

Exhibit 17 displays fixed charges per available room and ratios to total sales for all survey respondents. Median total fixed expenses for 1983 were $4,539 per room, or 18.7 percent of total sales. Total fixed charges as an amount per room were higher than 1982 results; however, as a ratio to total sales, they required an additional 1.4 percent of revenue. This exhibit also shows the varying levels of fixed charges reported by selected industry segments.

Exhibit 15
Analysis of Undistributed Operating Expenses—By Selected Criteria*

	All Establishments	Size		
		Under 150 Rooms	150-299	300 Rooms and Over
Administrative & General				
Cost Per Room				
Payroll & Related Expenses	$1,064	$ 583	$ 766	$1,364
Other	849	541	813	1,064
Total	$1,994	$1,051	$1,855	$2,411
Ratio to Room Sales	11.7%	10.0%	12.3%	11.9%
Ratio to Total Sales	7.6	7.9	8.2	7.2
Marketing				
Cost Per Room				
Payroll & Related Expenses	$ 391	$ 134	$ 275	$ 455
Other	621	500	536	865
Total	$ 919	$ 500	$ 881	$1,267
Ratio to Room Sales	5.8%	4.8%	5.8%	6.9%
Ratio to Total Sales	4.0	3.2	3.9	4.0
Energy Costs				
Cost Per Room	$ 961	$ 875	$ 905	$1,191
Ratio to Room Sales	6.5%	5.9%	7.1%	6.1%
Ratio to Total Sales	4.3	4.6	4.3	4.0
Property Operation & Maintenance				
Cost Per Room				
Payroll	$ 527	$ 423	$ 419	$ 809
Other	636	613	515	856
Total	$1,310	$1,053	$ 922	$1,790
Ratio to Room Sales	8.8%	7.9%	7.6%	9.7%
Ratio to Total Sales	5.5	5.8	5.4	6.0

*All figures are medians.

Exhibit 16

Energy Expenses—Amounts Per Available Room and Costs Per Occupied Room Per Day*

	Amounts Per Available Room			Cost Per Occupied Room Per Day		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Electricity	$492	$660	$ 887	$1.83	$2.43	$3.38
Fuel	172	235	364	0.61	0.84	1.28
Steam	**	**	**	**	**	**
Water	53	88	123	0.18	0.31	0.42
Total Energy Expenses	$799	$961	$1,407	$2.79	$3.43	$5.46
Total United States	$799	$998	$1,344	$4.68	$6.12	$7.74

*Based on those hotels supplying detail. All figures are medians and quartiles and do not necessarily add to totals shown.
**Insufficient data.

Exhibit 17

Fixed Charges—Median Amounts Per Room and Ratio to Total Sales—By Selected Criteria*

		Size			Location				
	All Establishments	Under 150 Rooms	150-299 Rooms	Over 300 Rooms	Center City	Airport	Suburban	Highway	Resort
Amount Per Room									
Rent	$ 978	$ 888	$ 524	$2,188	$3,153	$3,906	$ 720	**	$2,038
Property Taxes	320	226	294	519	579	442	252	**	379
Insurance on Buildings & Contents	65	54	88	57	126	**	101	**	61
Interest Expense	1,246	263	2,000	1,082	489	**	173	**	3,050
Depreciation & Amortization	1,333	922	1,352	1,527	1,356	1,660	1,292	**	3,077
Total Fixed Charges	$4,539	$2,582	$4,080	$3,716	$5,037	$3,950	$2,324	**	$8,947
Ratio to Total Sales	18.7%	16.8%	20.3%	16.5%	20.3%	18.6%	13.7%	**	15.2%

*Based on those supplying detail. All figures are medians.
**Insufficient response.

Balance sheet ratios

Exhibit 18 compares liquidity ratios, and other frequently used balance sheet ratios, for 1983 with the previous year's figures. The current position, which is defined as current assets divided by current liabilities, rose 10.3 percent, compared with 1982, to reach $1.28. The amount per room and ratio to total sales of accounts receivable also increased significantly.

Summary

A summary of all departmental expenses is presented in Exhibits 19 and 20 as amounts per available room and as ratios to total sales. Included are management fees, significant categories in the rooms and food and beverage departments, and administrative and general expenses.

Exhibit 18
Balance Sheet Ratios—1983 Compared With 1982*

	1983	1982
Current Position	$ 1.28	$ 1.16
Accounts Receivable		
Amount Per Room	$1,545	$1,331
Ratio to Total Sales	6.1%	3.7%
Number of Times Average Daily Sales	**	14
Food Inventory		
Amount Per Room	108	107
Annual Turnover	29	28
Beverage Inventory		
Amount Per Room	81	76
Annual Turnover	5	7

*All figures are medians. Accounts receivable and inventory figures are for end of year.
**Insufficient response.

Exhibit 19

Summary Statement of Income and Expenses
Amounts Per Available Room*

	All Establishments	Size			Location				
		Under 150 Rooms	150–299 Rooms	Over 300 Rooms	Center City	Airport	Suburban	Highway	Resort
Rooms									
Net Revenue	16,141	12,395	15,361	20,161	18,501	15,360	13,632	15,334	22,805
Departmental Expenses									
Payroll & Related Expenses	2,826	2,085	2,345	3,486	3,286	2,850	2,190	1,672	3,065
Other	1,172	910	946	1,755	1,134	1,182	883	684	2,120
Total	4,116	2,932	3,253	4,973	4,629	3,961	3,073	2,405	5,790
Departmental Income	12,539	10,889	11,934	15,379	13,422	11,581	10,559	10,889	17,014
Food & Beverage Sales									
Food	4,626	2,988	4,474	7,269	4,136	4,551	3,302	2,429	9,430
Beverage	1,945	1,540	1,594	2,376	1,517	1,475	1,006	760	3,592
Total	6,571	4,413	5,793	9,644	5,653	5,895	4,440	3,188	12,842
Cost of Sales									
Food	1,575	1,024	1,181	2,339	928	1,575	939	788	2,962
Beverage	401	394	297	517	233	308	186	153	775
Total	1,958	1,419	1,405	2,890	1,124	1,879	1,142	940	3,736
Gross Profit	5,056	3,043	4,388	6,755	4,234	4,034	3,302	2,248	9,616
Public Room Sales	346	46	242	393	327	232	**	**	46
Other Income	70	89	40	90	133	51	**	**	45
Gross Profit & Other Income	5,489	3,057	4,388	7,654	4,316	4,383	3,302	2,248	9,618
Departmental Expenses									
Payroll & Related Expenses	2,955	2,236	2,696	4,449	2,896	2,942	1,979	1,365	6,878
Other	862	632	675	1,031	557	739	370	231	1,707
Total	4,021	2,676	3,395	5,578	3,453	3,563	2,354	1,601	8,991
Departmental income	866	326	614	1,486	714	419	1,039	614	3,305
Minor Operated Departments & Other Income (Net)	(53)	(261)	(299)	63	(13)	(353)	(493)	**	71
Telephone Departmental Income	(25)	0	9	(140)	18	(156)	9	73	(99)
Rentals & Other Income	207	49	115	352	115	94	53	321	406
Gross Income	13,346	10,107	12,609	17,041	14,766	12,013	11,044	11,811	20,855
Undistributed Operating Expenses									
Administrative & General Expenses									
Payroll & Related Expenses	1,064	583	766	1,364	1,039	1,019	455	945	1,788
Other	849	541	813	1,064	774	808	508	996	1,442
Total	1,994	1,051	1,855	2,411	1,822	1,758	990	2,085	3,230
Marketing	919	500	881	1,267	524	910	276	631	2,127
Energy Costs	961	875	905	1,191	820	913	869	711	1,629
Property Operation & Maintenance	1,310	1,053	922	1,790	1,293	929	1,002	924	2,891
Total Undistributed Expenses	4,774	3,100	4,357	6,543	3,965	4,321	2,995	4,351	4,529
Income Before Management Fees	8,159	7,026	7,753	9,910	8,223	8,095	7,875	7,460	11,652
Management Fees	851	565	747	1,114	1,183	690	565	**	1,022
Income Before Fixed Charge	7,486	7,014	6,740	8,862	7,517	7,404	7,875	**	10,563
Total Fixed Charges	4,539	2,582	4,081	6,209	5,037	3,950	2,324	**	8,947
Income Before Income Tax	3,196	4,275	2,571	3,716	2,958	3,247	5,456	**	3,190

*All amounts are medians and do not necessarily add to totals shown. All ratios are based on total sales except those of the rooms and food and beverage departments. Cost of sales is shown as a percentage of the corresponding sales. Food and beverage departmental expense ratios are based on the combined food and beverage sales.
**Insufficient response.

Exhibit 20

Summary Statement of Income and Expenses Ratios to Total Sales*

	All Establishments	Size			Location				
		Under 150 Rooms	150–299 Rooms	Over 300 Rooms	Center City	Airport	Suburban	Highway	Resort
Rooms									
Net Revenue	65.8	75.0	68.9	61.9	69.0	66.4	77.3	71.9	61.8
Departmental Expenses									
Payroll & Related Expenses	11.9	12.6	11.9	11.0	13.6	12.9	12.6	11.3	8.0
Other	4.9	4.3	4.4	5.3	5.0	5.7	4.2	4.0	5.2
Total	17.0	17.0	17.0	16.7	18.0	17.4	17.1	15.5	15.6
Departmental Income	50.1	58.3	53.0	44.2	51.3	49.8	59.9	56.8	42.7
Food & Beverage Sales									
Food	74.8	76.8	73.1	75.4	79.1	73.4	78.9	76.2	73.4
Beverage	25.2	23.2	26.9	24.6	20.9	26.6	21.1	23.2	26.6
Total	100 %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of Sales									
Food	31.1	32.2	30.3	31.1	28.2	32.8	27.8	30.3	32.2
Beverage	20.3	24.6	19.7	19.9	18.7	21.7	19.3	20.1	20.3
Total	27.8	30.8	27.5	27.9	26.2	29.6	25.2	27.4	29.3
Gross Profit	21.2	18.8	21.6	21.6	18.2	19.6	15.7	21.6	25.9
Public Room Sales	1.2	0.5	1.2	1.2	1.2	0.7	**	**	0.5
Other Income	0.3	**	0.1	0.3	0.4	0.3	**	**	0.2
Gross Profit & Other Income	23.7	19.9	21.6	24.6	18.5	21.4	15.7	21.6	25.9
Departmental Expenses									
Payroll & Related Expenses	13.7	14.3	13.3	13.8	12.3	13.8	9.2	8.1	14.8
Other	3.3	3.3	3.2	3.3	2.4	3.5	1.7	1.4	4.3
Total	17.0	17.6	15.6	17.0	14.7	16.8	10.9	11.3	22.9
Departmental Income	4.1	1.8	6.5	5.4	3.6	1.9	5.0	6.5	8.4
Minor Operated Departments & Other Income (Net)	(0.2)	(1.5)	(1.6)	1.2	(0.1)	(1.6)	(2.3)	(0.8)	0.3
Telephone Departmental Income	(0.1)	0.0	0.0	(0.5)	0.1	(0.7)	0.0	0.6	(0.2)
Rentals & Other Income	0.7	0.3	0.5	1.3	0.5	0.5	0.3	1.4	0.9
Gross Income	55.4	61.5	55.8	54.0	55.8	54.0	64.0	66.9	47.2
Undistributed Operating Expenses									
Administrative & General Expenses									
Payroll & Related Expenses	4.0	3.8	3.8	4.1	3.7	4.1	2.6	5.2	5.0
Other	3.6	3.3	3.7	3.3	3.2	3.5	2.9	4.5	4.7
Total	7.6	7.9	8.2	7.2	6.9	7.3	5.2	11.4	9.8
Marketing	4.0	3.2	3.9	4.0	2.1	4.4	1.4	3.7	4.6
Energy Costs	4.3	4.6	4.3	4.0	4.0	4.4	4.3	4.7	4.4
Property Operation & Maintenance	5.5	5.8	5.4	6.0	5.5	4.4	5.4	6.0	7.8
Total Undistributed Expenses	21.0	21.8	20.3	21.1	18.8	20.3	18.0	25.7	26.3
Income Before Management Fees	35.4	44.8	36.8	31.4	36.6	37.1	46.9	40.2	19.6
Management Fees	3.0	3.4	3.3	3.0	3.0	3.0	2.8	**	2.4
Income Before Fixed Charge	32.2	45.6	34.7	28.6	36.6	33.9	48.1	**	19.6
Total Fixed Charges	18.7	16.8	20.3	16.5	20.3	18.6	13.7	**	15.2
Income Before Income Tax	13.2	26.1	13.1	10.9	14.3	15.3	32.6	**	4.4

*All amounts are medians and do not necessarily add to totals shown. All ratios are based on total sales except those of the rooms and food and beverage departments. Cost of sales is shown as a percentage of the corresponding sales. Food and beverage departmental expense ratios are based on the combined food and beverage sales.
**Insufficient response.

BASES AND SIGNIFICANCE OF LODGING STATISTICS

Number of Rooms

The number of rooms used in several computations is the total number of rooms available for guest rental during the year. All rooms used for management, employees and storerooms are not included in these totals.

Room Occupancy

The percentage of room occupancy is computed by dividing the total number of rooms occupied by the total number of rooms available for occupancy throughout the year. Seasonal fluctuations are thus removed, allowing properties in various locations to be compared for the same period. Seasonal variations can be seen when analyzed on a monthly basis, such as in the *National Trend of Business in the Lodging Industry*.

Average Room Rate

The average room rate is computed by dividing rooms revenue, net of all allowances, by the total number of rooms occupied. Affecting this rate is the percentage of double occupancy associated with each property. Double occupancy is the percentage of rented rooms occupied by two or more persons. As the double occupancy increases, the room rate also should rise, since lodging facilities customarily charge a fee for each additional person occupying the guest room.

Comparison of Operating Results

Due to the current uncertainties surrounding financing methods, operators of lodging establishments may lease all or part of their assets. Because of high construction and interest costs, many operators have turned to creative financing techniques. Fixed costs may differ significantly for operators who lease their assets compared with those who own theirs. It is difficult to compare those operations with high depreciation and interest charges with those that are not required to pay any of those fees. To alleviate any possible difficulties in comparison, it is recommended that the reader analyze results before fixed charges are deducted.

Means, Medians and Quartiles

Most of the figures in this lodging survey are given as medians and quartiles rather than means. The median and upper and lower quartiles are calculated by first arraying all the numbers in the order of the lowest to the highest figure. The number that falls in the middle of the list is the median. The figure halfway between the lowest number and the median is the lower quartile, while the figure halfway between the median and the highest number is the upper quartile. To arrive at an arithmetic mean, divide the sum of the values by the number of items used. Table 1 illustrates the difference between the two.

The inclusion of a unit with high sales per occupied room may bring about a mean that is not as representative of the group as the median.

Productivity Index

The productivity index measures employee productivity in terms of the total revenue received for each dollar spent on payroll expenses. It is computed by dividing total revenue by total payroll and related expenses.

Inventory Turnover

Gross cost before deducting employees' meals divided by the average of the opening and ending inventories.

Table 1

	Room Sales	Occupied Rooms	Room Sales Per Occupied Room
Hotel A	$ 800,000	42,600	$ 18.78
Hotel B	1,200,000	56,550	21.22
Hotel C	1,450,000	58,750	24.68
Hotel D	1,875,000	61,725	30.38
Hotel E	2,225,000	66,500	33.46
Total	$7,550,000	286,125	$128.52
Median			$ 24.68
Mean	($128.52/5)		$ 25.70

EXPLANATION OF TERMS

Room Sales

Guest room revenue from accommodations on a part-day, full-day or longer period basis, net of any rebates and discounts.

Rentals and Other Income

Rental income from stores, offices, clubs and other spaces not classified as concessions used for business purposes. Also includes revenue from concessions, income from vending machine operations, commissions (including pay stations) and interest earned.

Restaurant

Cost (Food)—Cost of food sold, after deduction of the cost of employees' meals.

Cost (Beverage)—Cost of beverages sold, after deduction of the cost of employees' beverages.

Payroll—Stewards, chefs, cooks, waitress and busboys, dishwashers, butchers, vegetable cleaners, bakers, pantry help, etc.; wine stewards and bartenders; stock clerks, storekeepers, cost clerks, checkers and cashiers.

Income, Departmental—Total restaurant sales and other restaurant income less total cost of food and beverages consumed, payroll and related expenses and other direct restaurant expenses.

Sales, Total Restaurant (Food and Beverage)—Gross sales of food and beverages less allowances. Cover charges and other miscellaneous restaurant income are not included.

Management Fees

Fees charged by a management organization for management service or supervision should be charged to this account.

Income Before Fixed Charges

For purposes of this study, income before fixed charges is defined as total departmental revenue from all sources (rooms, telephone, food and beverage department income, minor operated departments income, store rentals and other income) less all departmental and undistributed operating expenses. This is the income from all operations before deducting rent, property taxes, property insurance, interest, depreciation and income taxes.

Further explanation may be found in *Uniform System of Accounts for Hotels*.

ANALYZE YOUR OPERATION

Periodic analysis of the financial performance of your lodging establishment may provide early warning signs of potential problems. Examination on a regular basis could reveal undesirable trends and provide the opportunity for corrective action. The worksheet on the next page is designed to provide a quick analysis of key items to reveal problem areas.

Follow these simple instructions for completing the worksheet:

1. Enter your figures in the first column.

2. Select the appropriate medians for comparison from the tables or text.

3. If the variance is greater than plus or minus 10 percent, further analysis should be made to determine the reason for that variance.

Worksheet

Amount Per Available Room	Your Figures	Medians From *California Lodging Industry* Report		
Sales				
Rooms	$			
Food	$			
Beverage	$			
Other Departments	$			
Total	$			
Payroll and Related Expenses	$			
Undistributed Expenses (Excluding Payroll)				
Administrative & General	$			
Marketing	$			
Energy Costs	$			
Property Operation & Maintenance	$			
Income Before Management Fees & Fixed Charges	$			
Management Fees	$			
Income Before Fixed Charges	$			
Fixed Charges	$			
Rent	$			
Property Taxes	$			
Insurance	$			
Interest	$			
Depreciation	$			
Total	$			
Net Income Before Income Tax	$			

Supplemental Operating Information

General Statistics				
Occupancy	%	%	%	%
Double Occupancy	%	%	%	%
Average Rate Per Occupied Room	$	$	$	$
Income Before Fixed Charges				
Ratio to				
Room Sales	%	%	%	%
Total Sales	%	%	%	%
Cost of Food Sales (After Credit For Employee Meals)	%	%	%	%
Cost of Beverage Sales	%	%	%	%
Balance Sheet Ratios				
Current Position	times	times	times	times
Accounts Receivable — Ratio to Total Sales	%	%	%	%
Inventory Turnover				
Food	times	times	times	times
Beverage	times	times	times	times

Laventhol & Horwath

Certified Public Accountants

Executive Offices: 1845 Walnut Street, Philadelphia, PA 19103
215-299-1600 Telex: 83-1396 HORWINTAS PHA

Alaska
730 I St.
Anchorage, Alaska 99501
907-276-5811

Arizona
1314 N. Third St., Suite 100
Phoenix, Ariz. 85004
602-252-0920

5151 E. Broadway, Suite 1200
Tucson, Ariz. 85711
602-790-2255

California
611 Anton Blvd., Suite 1100
Costa Mesa, Calif. 92626
714-556-4244

3699 Wilshire Blvd.
Los Angeles, Calif. 90010
213-381-5393
Telex: 4992753
HORWINTAS LSA

Two Century Plaza, Suite 3700
2049 Century Park East
Los Angeles, Calif. 90067
213-553-1040
Telex: 696374

2570 El Camino Real,
Suite 310
Mountain View, Calif. 94040
415-941-3537

101 W. Broadway, Suite 1300
San Diego, Calif. 92101
619-236-1188

50 California St., Suite 2450
San Francisco, Calif. 94111
415-989-0110

Colorado
370-17th St., Suite 2100
Denver, Colo. 80202
303-595-4000
Telex: 45-0934

Connecticut
Park City Plaza
10 Middle St.
Bridgeport, Conn. 06604
203-333-5133

District of Columbia
1901 L St., N.W.
Washington, D.C. 20036
202-463-0700
Telex: 62100620 HORWINTAS

2115 E. Jefferson St.
Rockville, Md. 20852
301-468-0888

Florida
201 Alhambra Circle
Coral Gables, Fla. 33134
305-442-2000
Telex: 264822 LH MIA UR

Barnett Plaza, Suite 1010
201 S. Orange Ave.
Orlando, Fla. 32801
305-843-9240

One Tampa City Center
201 N. Franklin St., Suite 2900
Tampa, Fla. 33602
813-228-7555

1645 Palm Beach Lakes Blvd.,
Suite 1100
West Palm Beach, Fla. 33401
305-689-6600

Georgia
225 Peachtree St., N.E.
Suite 2300, South Tower
Atlanta, Ga. 30303
404-581-0100

Illinois
P.O. Box 2618
1116 W. Main St.
Carbondale, Ill. 62901
618-457-8158

300 S. Riverside Plaza
Chicago, Ill. 60606
312-648-0555

Marriott Commerce Bldg.
509 S. 6th St.
Springfield, Ill. 62701
217-544-8955

Indiana
One American Square
Box 82051, Suite 2210
Indianapolis, Ind. 46282
317-631-0700

Massachusetts
Two Center Plaza
Boston, Mass. 02108
617-742-6100
Telex: 940899 LAV HOR BSN

Michigan
26400 Lahser Rd., Suite 200
Southfield, Mich. 48034
313-354-6000

Minnesota
100 Washington Square,
Suite 1650
Minneapolis, Minn. 55401
612-332-5500

Missouri
1100 CharterBank Center
920 Main St.
Kansas City, Mo. 64105
816-221-6500
Telex: 750189 LAVENTHOL UD

Ten Broadway, Suite 1000
St. Louis, Mo. 63102
314-421-1710

Nevada
Valley Bank Center, 7th Floor
101 Convention Center Dr.
Las Vegas, Nev. 89109
702-737-5533

New Jersey
Turnpike Plaza Bldg.
197 Highway 18
East Brunswick, N.J. 08816
201-257-6000

New York
445 Broad Hollow Rd.
Melville, L.I., N.Y. 11747
516-694-0530

919 Third Ave.
New York, N.Y. 10022
212-980-3100
Telex: 236501 LNH UR

1776 Broadway
New York, N.Y. 10019
212-586-6015
Telex: 640279

North Carolina
One NCNB Plaza, Suite 3420
Charlotte, N.C. 28280
704-377-0220

Ohio
National City Center
1900 E. 9th St.
Cleveland, Ohio 44114
216-696-4770

88 E. Broad St., Suite 980
Columbus, Ohio 43215
614-221-9494

8256 E. Market St., Suite 127
Warren, Ohio 44484
216-856-2134

Oregon
1850 Georgia Pacific Bldg.
900 S.W. Fifth Ave.
Portland, Ore. 97204
503-221-0141

Pennsylvania
The G.S.B. Bldg.
Bala Cynwyd, Pa. 19004
215-839-4500

P.O. Box 1865
Harrisburg, Pa. 17105
717-761-7171

1845 Walnut St.
Philadelphia, Pa. 19103
215-299-1700
Telex: 83-1396
HORWINTAS PHA

15 S. Franklin St.
Wilkes-Barre, Pa. 18701
717-822-1174

Puerto Rico
1701 Banco Popular Center
Hato Rey, P.R. 00918
809-765-5580

Rhode Island
One Hospital Trust Plaza,
7th Floor
Providence, R.I. 02903
401-421-4800

Texas
2121 San Jacinto St.,
Suite 1700
Dallas, Tex. 75201
214-754-7100
Telex: 730903 HORWINTAS DAL

333 Clay St., Suite 1100
Houston, Tex. 77002
713-658-1071

Washington
Metropolitan Park
1100 Olive Way
Seattle, Wash. 98101
206-621-1900

SUBSIDIARIES

Valuation Counselors, Inc.
230 W. Monroe St.
Chicago, Ill. 60606
312-368-0200

2055 Craigshire Dr., Suite 410
St. Louis, Mo. 63146
314-576-0035

Valuation Counselors Eastern, Inc.
Princeton Pike Office Park, CN 30
Princeton, N.J. 08540
609-896-0300

Valuation Counselors Central, Inc.
230 W. Monroe St.
Chicago, Ill. 60606
312-368-0500

Valuation Counselors Northeastern, Inc.
One Center Plaza
Boston, Mass. 02108
617-742-6766

Valuation Counselors Southeastern, Inc.
340 Interstate North Pkwy., Suite 440
Atlanta, Ga. 30339
404-955-0088

Valuation Counselors Southwestern, Inc.
2000 West Loop South, Suite 1365
Houston, Tex. 77027
713-877-0200

Valuation Counselors Western, Inc.
2049 Century Park East, Suite 2530
Los Angeles, Calif. 90067
213-553-1515

Valuation Counselors Property Records, Inc.
230 W. Monroe St.
Chicago, Ill. 60606
312-368-0200

General Systems Company, Inc.
83 Rt. 206, Rd. 3
Belle Mead, N.J. 08502
201-359-3440

HORWATH & HORWATH INTERNATIONAL
Headquarters: 919 Third Avenue, New York, NY 10022
212-980-3100 Telex: 236501 LNH UR
(Partner and correspondent firms in these countries)

Andorra
Argentina
Australia
Austria
Bahrain
Bermuda
Bhutan
Bolivia
Brazil
Cameroon
Canada
Cayman Islands
Channel Islands
Chile
Colombia
Costa Rica
Cyprus
Denmark
Dominican Republic
Ecuador
Egypt
El Salvador
Ethiopia
Finland
France
Germany
Greece
Guatemala
Haiti
Hong Kong
Iceland
India
Indonesia
Iraq
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Korea
Kuwait
Lebanon
Luxembourg
Malaysia
Mexico
Monaco
Nepal
Netherlands
New Zealand
Nigeria
Norway
Oman
Panama
Peru
Portugal
Qatar
Saudi Arabia
Singapore
South Africa
Spain
Sweden
Switzerland
Syria
Taiwan
United Arab Emirates
United Kingdom
Uruguay
Venezuela
Yemen
Zimbabwe